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TRADE BETWEEN MONTANA AND THE PACIFIC RIM

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

BILLINGS, MT
DECEMBER 8, 1989

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CONTENTS

OPENING STATEMENT

Page

Baucus, Hon. Max, a U.S. Senator from Montana 1

COMMITTEE PRESS RELEASE

Finance Subcommittee on Trade to Hold Field Hearing on Trade Between Montana and the Pacific Rim 1

ADMINISTRATION WITNESS

Williams, S. Linn, Deputy U.S. Trade Representative 4

PUBLIC WITNESSES

Dennison, Stan, chairman, Alliance for Wood Products Exports, executive vice president, Georgia Pacific Corp. 13
Stein, Michael, partner, Dewey, Ballantine, Bushby, Palmer & Wood, counsel, Alliance for Wood Products Exports 15
Smith, Ramsay, associate professor, wood science and technology, College of Forest Resources, University of Washington 19
Allen, Don, executive director, Montana Wood Products Association 23
Seng, Philip M., senior vice president, international programs, U.S. Meat Export Federation 29

APPENDIX

Alphabetical Listing and Material Submitted

Allen, Don:
Testimony 23
Prepared statement 41
Baucus, Hon. Max:
Opening statement 1
Dennison, Stan:
Testimony 13
Prepared statement 42
Seng, Philip M.:
Testimony 29
Smith, Ramsay:
Testimony 19
Prepared statement 46
Stein, Michael:
Testimony 15
Prepared statement 56
Williams, S. Linn:
Testimony 4

TRADE BETWEEN MONTANA AND THE PACIFIC RIM

FRIDAY, DECEMBER 8, 1989

SUBCOMMITTEE ON INTERNATIONAL TRADE,
U.S. SENATE,
COMMITTEE ON FINANCE,
Billings, MT.

The hearing was convened, pursuant to notice, at 12:36 p.m., in the Granite Room, Sheraton Motor Inn, 27 North 27th Street, Billings, MT, Hon. Max Baucus (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press Release No. H-56, Dec. 6, 1989]

FINANCE SUBCOMMITTEE ON TRADE TO HOLD FIELD HEARING ON TRADE BETWEEN MONTANA AND THE PACIFIC RIM

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Wednesday the Subcommittee on International Trade will hold a field hearing in Montana to discuss trade between Montana and other states in the region and the Pacific Rim.

The hearing is scheduled for *Friday, December 8, 1989 at 12:30 p.m.* at the Sheraton Motor Inn, 27 North 27th Street, Billings, Montana, 59101.

Senator Baucus said, "Montana and other states in the region are likely to continue to depend heavily on trade with Japan and other Pacific Rim nations."

Two bilateral trade issues of particular concern to the region, the 1988 U.S.-Japan Beef and Citrus Agreement and the ongoing Super 301 case to open the Japanese forest products market, will be discussed.

Senator Baucus noted, "In dollar terms, the 1988 U.S.-Japan Beef and Citrus Agreement may be the most successful trade agreement we have ever negotiated with Japan. The agreement has opened a $2 billion per year export market for American cattlemen. It is the product of years of hard work by the Administration, the industry, and myself and others in Congress."

"Hopefully, the success we have had in opening the Japanese beef market can be repeated in opening the Japanese forest products market. The forest products industry has estimated that removing these barriers could result in an additional $1 to $2 billion in processed forest product exports. In turn, that could mean an additional 10,000 to 20,000 jobs in the U.S. forest products industry," said Baucus.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. All right. Let's get started this afternoon.

It's very fitting that the Senate Finance Committee's International Trade Subcommittee would field a field hearing in Montana on trade with Japan. That's because we live in an increasingly global society. The economic future of Montana and the economic future of other States in this region are closely linked to Japan.

Events in places like Europe and the Soviet Union can have an effect on business opportunities around the world, but geography still dictates trade patterns. The Mountain States and the Northwestern States are likely to continue to depend heavily on trade with Japan and other Pacific Rim Nations.

Japan already provides a market for a number of Montana products. About 85 percent of Montana's wheat was exported last year to the Pacific Rim. Most of it ultimately ended up being purchased by Japanese and Korean consumers.

Increasingly, Japan is emerging as a major market for other agricultural and forest products from our part of the country. Some entrepreneurs have been successful in selling still other products, such as fly fishing equipment and log cabins to Japan, but Japan has not always been the willing customer. Many exporters in our Region have run into trade barriers that block access with the Japanese market.

Today, representatives of the National Cattlemen's Association and National Forest Products Association and their respective State affiliates are here to testify on their experience in exporting to Japan. There are striking similarities in the stories they have to tell. Both produce goods that are unquestionably competitive in the world economy—high quality products. America, and particularly Montana, produces the best grain-fed beef and processed forest products in the world. None of our competitors can touch us.

But both U.S. beef and forest products have been kept out of the Japanese market by an extensive series of trade barriers. In July of 1988, after 7 years of work by the industry, by the administration and by myself, Japan agreed to open its beef market. The result has been a bonanza for American beef producers. Exports of U.S. beef to Japan have been rising at the rate of 30 to 40 percent a year. America's share of the Japanese beef import market has risen from 35 percent to 45 percent and continues to go up. At the same time, the share of other beef exporting nations, like Australia, is dropping.

Clearly, Japanese consumers prefer American beef. In a few years our cattlemen will be exporting $2 billion to $3 billion in beef to Japan each year. And already these exports to Japan have increased the price of an average Montana fed steer by $56 a head. In dollar terms, the 1988 U.S.-Japan beef and citrus agreement may be the most successful trade agreement we have ever negotiated with Japan.

Unfortunately, we still face serious problems exporting forest products to Japan. Earlier this year, the U.S. Commerce Department released a study of Japanese forest product trade barriers. The study concluded that Japan maintained an extensive set of trade barriers designed to encourage imports of logs and discourage imports of processed forest products—and these barriers work.

We export about $2 billion in forest products to Japan each year. But more than 70 percent of those exports are raw, unprocessed products—mostly logs. These Japanese trade restrictions are robbing American and Montana millworkers of their jobs; and the forest products industry has estimated that removing these barriers could result in additional $1 billion to $2 billion in processed

forest goods. In turn, that could mean an additional 10,000 to 20,000 jobs in the U.S. forest products industry.

In light of this enormous potential, the Bush administration wisely chose to make opening the Japanese forest products market one of its major priorities under the 1988 trade act. Hopefully, within a few months we will be able to conclude a forest products agreement with the Japanese that is as successful as the beef agreement.

What is the lesson that we should learn from these two case studies of trade with Japan? In short, the lesson is that government pressure to open the Japanese market works.

Certainly the government cannot and should not try to do it all. Ultimately the sales must be made by businessmen. But those businessmen cannot make sales unless they get a chance to enter the Japanese market. And most informed observers agree that the Japanese market is more closed to imports than any other developed nation.

Japan has made significant strides toward opening its market in recent years, but we must keep the pressure on. That is why every major business group in America, including the United States Chamber of Commerce, the National Association of Manufacturers and the President's Advisory Committee on Trade Policy Negotiations all support a vigorous U.S. trade policy aimed at opening foreign markets.

The purpose of today's hearing is to more closely examine trade with Japan in beef and forest products. And to take stock of what this trade means for Montana's economic future.

I have also brought with me the Bush administration's leading Japanese trade negotiator to put him in direct touch with the concerns of exporters in this part of the country.

With that, I would like to introduce him. It's Ambassador Linn Williams, who is the Deputy U.S. Trade Representative. Ambassador Williams primarily is responsible with negotiating these agreements with Japan and other countries, particularly in Asia.

I have known Ambassador Williams some time. Ambassador Williams is a breath of fresh air. I think that historically, and unfortunately, too many American trade negotiators in the past were a little easy, a little lax, a little—you might say, a little too nice, worrying that somebody might get upset, somebody might get a little angry.

Linn Williams is also a fair and nice person. But he's also one who is very firm. He is very insistent on standing up for America's rights and I want to publicly acknowledge my high esteem of Ambassador Williams' work. He is a solid serious negotiator and does not suffer either fools gladly or suffer unwise and outrageous statements in negotiating positions from the other side.

Ambassador Williams, we are very happy to have you here in the Big Sky State. Ambassador Williams told me that several years ago he and his family quickly darted north from Wyoming just to say they had been in Montana. So this is the first time he has been here in a capacity other than just as a tourist.

Ambassador, we welcome you.

STATEMENT OF AMBASSADOR S. LINN WILLIAMS, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador WILLIAMS. Thank you very much, Senator. It is a pleasure to be here. I worried about getting snowed in and now I am getting worried about getting snowed out. Your weather is considerably better than ours.

Senator, I came here, as you and I discussed, mostly to listen to what the people here had to say so that we could sharpen our own thinking. But with your permission I would like to put the Bush administration's thinking into a framework.

The overall trade policy of the Bush administration, working very closely with Congress and with Senator Baucus and his Committee in particular, has been to open markets and to increase access of American products to the markets of foreign countries.

Now that is a big order, but it is a very important one to us. It is important to us for two reasons. One is, we run a trade deficit world wide that is now running in the neighborhood of over $100 billion a year. The good news about that number is that it is roughly half what it was a couple of years ago. The bad news about that number is it is still too high. And the worst news about that number is that the Japanese portion of it has been consistently running between 40 and 50 percent of the total.

Several of you may remember that a few years ago there was a major revaluation of the dollar, which resulted in substantially increased U.S. exports. The revaluation of the dollar virtually wiped out our trade deficit with Europe. At the same time that was happening, our trade deficit with Japan decreased by less than 10 percent. So we are looking not only at considerable problems with the deficit itself, but particular problems with Japan.

In addition to the deficit, there is also the question of market access. Frankly, even if we were running a trade surplus we would still be interested in market access. If our markets are open, other markets should be open.

That is the philosophy of this administration. I know it is the philosophy of Senator Baucus and his Committee. And, therefore, for the first time in many years, I think you have widespread bipartisan support for a tough, strong trade policy.

And you have to go back 25 or 30 years, basically to the Kennedy administration, before you find an administration emphasizing trade the way it has been emphasized by the Bush administration.

Now let me talk a little bit, if I may, about our approach to Japan. Our strategic approach to Japan has four basic aspects. The first Senator Baucus has already mentioned, what we call aggressive free trade. We think that open trade has been basically good at developing the economic strength of this country. We think it has been so good that we want very much for other countries to benefit from opening their own markets as well.

I completely agree with Senator Baucus that Government pressure is important to the opening of markets in general, but to Japan in particular. We have now, as we speak, some 25 different trade issues going with Japan. That is roughly three times what we have with any other country. And again, I think you have to go

back a long way before you find an administration that has gotten out of the blocks as quickly on trade matters.

We want to open the Japanese market through negotiation where that is at all possible. But we are prepared to use the leverage of our own market and to use our own domestic laws if our negotiations are not successful.

The second strategic approach is that we have tried to pay special attention to sectors that have a ripple effect on the rest of the Japanese economy.

When we went through what was called the Super 301 exercise last spring we picked "priority practices." We picked six of them; three were in Japan. The three that were in Japan include areas that in our judgment will affect other sectors in Japan if we are successful in negotiating an agreement.

One of those three priority areas is wood products; and we see wood products having a ripple effect—that is something beyond its own industry—on the issue of how the Japanese Government sets standards. We believe that the Japanese Government has set standards that have become barriers to trade without giving foreign competitors the opportunity to demonstrate that their products perform the same thing as the Japanese products.

Our third strategic approach to Japan is to address broad structural problems. Japan used to be a high tariff, high quota country. In large measure because of pressure from the U.S. Government, that is no longer the case. Japan is now a low tariff, low quota country. But imports are still running at anywhere between one-third and one-sixth of what most economists believe they should run.

Japanese prices are also running at about 40 percent higher than world prices. Think about that. Here is a country that is the second biggest market in the world. Economists will tell you pretty much anything, but economists are uniform in telling you that a market that big, where the value of the yen went up as it did four or 5 years ago, should be a price leader. That is, its prices should be coming down to world prices. That's not happening. Japanese prices are running consistently 40 percent higher than world prices.

So you have to ask yourself why. The answer is, there are informal barriers, invisible barriers, what we call structural barriers, to trade with Japan. Two of the ones that we have focused on that may be of most interest to people here are the Japanese distribution system, which tends to be comprised of layers of wholesalers, increasing the price to the ultimate consumer, and a large number of what we would call "mom and pop" stores, which are so small that they are not able efficiently to deliver goods to the Japanese public.

There is also an area that we call exclusionary business practices, where Japanese companies have gotten together, with the involvement of the Japanese Government, either in the past or presently, to "discipline" the market. In both cases they are structural barriers to our imports.

The last strategy with Japan is a particularly important development and a new one. We are looking for Japanese constituencies that would support our view of things. People think of Japanese

people as not having different views—and that is not at all the case.

When one lives in Japan, works in Japan, one realizes that Japanese consumers share the same desires of consumers anyplace else. The trick is to try to tap that constituency—which heretofore the American Government has not been as successful in doing as the Japanese have been able to tap constituencies here.

We think we have made some headway. Two of the areas of interest to you, beef and wood products, are examples. Beef was of particular interest to Japanese consumers, and ultimately it was the demand from consumers that helped us win that one. Wood products, we believe, will be of interest not only to Japanese consumers but also to certain Japanese companies who would like to build using more wood. If we are successful in tapping those constituencies, we shall find our negotiations on the subject of wood products more fruitful.

On the question of implementing the Japanese beef agreement, I find myself in broad agreement with Senator Baucus. I would add only a couple of points which illustrate something I said earlier about informal barriers. It is true that the beef agreement has been successful, in the sense that the Japanese have bought up to quota—the quota that was negotiated. In fact, they bought their quota by September, our numbers indicate.

What has not been so good—not necessarily about the agreement, but about the development of the beef market—is two things. One is that while wholesale prices have declined, retail prices by and large have not. Remember I said earlier that the distribution system was a problem in Japan, and this we relate to the rigidity of the distribution system in passing on price benefits to the Japanese consumer.

The second problem is an allegation that several Japanese companies, including a major trading company, got together to form a cartel to control the import of beef. We are concerned that its activities may still be affecting the beef market.

Our quota was fulfilled. So, you ask, what's the harm to us. The answer is, if there is a cartel controlling prices and prices don't go down, Japanese consumers aren't going to be that interested in buying our beef. Our beef's principal introduction to the Japanese market is its lower price. That's how we get into the market. After that, they decide whether they like the taste or not. If the prices are kept artificially high, the market is restricted.

We are engaging with the Japanese in a broad negotiation called the Structural Impediments Initiative on a large number of structural barriers, including exactly the kinds I've mentioned—distribution system and exclusionary business practices.

With respect to wood products, which is also of interest to some people here, wood products is one of three priority trade cases that we have initiated against Japan. We have had two formal meetings with the Government of Japan on that subject.

There was some progress in those meetings, but not anything that I could fairly characterize as movement. That is not surprising at this stage of negotiations. Typically, it takes awhile for any movement to show up, and it often doesn't show up until the end.

We have a number of issues, which we think of as a package. We do not separate them out. We think the issue is market access. Whether we think we have successfully negotiated market access will depend on what the package looks like. But the package contains—or the issues in that package contain—tariffs, misclassifications of certain products, standards and about codes. While this gets very technical, the basic concern we have is that some Japanese standards and codes do not refer to performance. We think that is a trade barrier.

There are also in Japan subsidies, both formal and informal, and restrictive business practices similar to the ones I mentioned earlier.

In the Structural Impediments Initiative, we are also addressing the broader concerns that may affect the wood products industry, including the distribution system and land use planning in Japan.

In both the distribution system and land use planning I want to emphasize a point I made earlier. There are constituencies in Japan that agree with our point of view on both of these subjects. Whether they will be able to prevail on the Japanese Government and Japanese producers remains to be seen. But there is a movement. I will not characterize it as a change. I think it's too small and too soon to call it that. But there is a movement that is at least of interest to us.

In the meantime, we shall continue to use the strongest influence we can as a Government to open the market for the benefit of our companies, while at the same time emphasizing that what benefits you—as a seller—also benefits the Japanese consumer, who is currently paying such high prices for products in Japan.

Senator, that's an outline of where we stand as an administration on trade policy in general; where we stand on trade policy with Japan in particular; and where we stand on beef and wood products, which I thought would be of particular interest to this group.

I realize you have panels that will be speaking later. I am very much interested in hearing those panels and in any other comments from the audience. With your permission, I would make myself available for questions from you, of course, or from any of the members of the audience.

Senator BAUCUS. Well that would be very helpful. I think we will do that a little later on.

To begin with, Linn, I wonder if you could tell us in your view what is the importance of American marketing opening efforts in helping to redress our world wide trade imbalance, particularly our trade imbalance with Japan. That is, there are some who say that American industry has to just hustle more, to work harder to learn Japanese culture, the Japanese language, to sell products in Japan. And there are others who say that while that may be, Japan is a very closed system and country still, and it is important for the U.S. Government to put additional pressure to Japan to open up those markets.

I just want to hear from you, in your view, the degree to which our trade imbalance with Japan is due to closed markets in Japan or due to other factors, such as our budget deficit, higher capital costs in America, for example, or maybe because we do not work as

hard as the Japanese are reputed to work. There may be some myth is this. But how important is market access is reducing the trade deficit in your view?

Ambassador WILLIAMS. Let us take the point about working hard in that market first, and then to go back to the question of the numbers. It is true that we share a responsibility for going into any market. If you were going to sell something in Oklahoma or California or England you would learn that market; and you have to do the same thing in Japan. Some industries are better at that than others; some industries have worked harder at it than others.

I have been involved with Japan now for more than 15 years and I have seen a marked improvement in the interest, willingness and ability of American companies to commit themselves to learn the Japanese market.

Ten years ago, fifteen years ago, I would have said that there were too few American companies that tried hard enough in that market. Now, I would say that is not the case—that the barriers to selling in Japan are not ones that I would attribute primarily to interest or effort on the part of American companies. Experience, yes. That will take some time. But there you have a bit of a chicken and egg problem, because American businesses sometimes hesitate when they don't see opportunities because Japanese markets have been restricted.

Market access barriers are, in my judgment, an extremely important part of the overall trade deficit. As I mentioned, we would want to go after the market access barriers even if we were running a surplus.

In terms of numbers, Senator, economists have said that lack of market access is responsible for somewhere between 20 and 30 percent of the total trade deficit. That is, if we fixed market access in Japan, we would knock the total trade deficit down by somewhere between 20 and 30 percent.

We believe that this number may not take into account two things. One is the extended effect of reducing a trade barrier. Let me give you an example. For many years the Japanese would not buy American paper products for their cigarette businesses because American paper was not supposed to be good enough.

Then we were successful at introducing American cigarettes to the Japanese market. American cigarettes went from 0 to 13 percent in a period of about 4 years. Within that period of time Japanese cigarette companies approached American companies to buy American cigarette paper which was considered higher quality, and American cigarette boxes because of our flip-top box.

Now the follow-on paper business is something nobody predicted when we opened the cigarette market. But it happened, and I predict it will happen again in other markets.

The second reason we think that number may be underestimated is because one of the advantages the Japanese companies have had is that 40 percent price differential in the domestic Japanese market. They are not competing for their domestic market the way we have to compete for our domestic market. So they are able to get a higher price and higher profits which they can then use to export more aggressively. If they actually have to compete in the home market as American companies do, they will be less able to

export so aggressively. Nevertheless, the final point is that not all of the trade deficit is related to market access. Most of the trade deficit is related to macro-economic policies—primarily savings and investment, and, to a lesser extent now, exchange rates.

If you look at our current accounts deficit, the difference is basically a difference between the amount we save and the amount we invest. If we do not save it, we have to get the money someplace else. We go out and borrow it, and that becomes a current accounts deficit.

So for us to fix the trade balance, Senator, is going to take some discipline on our part as Americans, frankly, to save more and spend less. That is something that the administration is working on in other programs.

Senator BAUCUS. But the main point is that the market access is a very critical part?

Ambassador WILLIAMS. An extremely important part.

Senator BAUCUS. In fact, it may account for more than 10 to 30 percent of the trade deficit for reasons that you've indicated?

Ambassador WILLIAMS. In our judgment it is.

Senator BAUCUS. Now let me change gears a bit. If market access account for, say, 10 to 40 or 50 percent, whatever, of the problem, what works? That is, how do you get market access? When Japan has a barrier, what general approach works to encourage Japan to lower, if not totally eliminate that barrier? What works? Do we sit and negotiate? Do we worry about offending Japan? Do we worry about Japan as an ally in the Pacific or do we potentially deny them American markets? What works if we are pragmatic about this?

I know there are terms and they are free traders and managed economies and managed trade and so forth which are terms that are banning about. I could care less about what they are called. I am more concerned about what works in your judgment. How do you get Japan to open up? If market access is in fact, 25 percent or 30 percent of the problem.

Ambassador WILLIAMS. I think what works is a combination of the following. We have to be tough and aggressive. I think Government pressure is essential, and I submit that none of the agreements we have gotten in the past, including beef and citrus, would have occurred without that Government pressure. We have, by the way, been successful in our negotiations with Japan in 1989. We had a major problem in telecommunications which was resolved successfully for us. The same with steel; the same with textiles.

In addition we have to be consistent and reasonable. We have to be tough, but we cannot go around chewing on table legs. I think some of the Japanese public has been led to believe that American responses to trade are not rational. We have to be is tough, but also reasonable and objective. We have made every effort to do so.

I would also emphasize a third point, Senator, which I referred to before as part of our overall strategy—finding and enlisting Japanese constituencies.

Senator BAUCUS. Particularly consumers.

Ambassador WILLIAMS. Particularly consumers, but also business groups. There are Japanese business groups that do not like Gov-

ernment regulation any more than U.S. business groups like Government regulation.

And when we negotiate with the Japanese, much of the material that we use is from Japanese sources. It is part of our effort to make a strong case but to make it in a way that is reasonable and explainable to the Japanese public as well as to ours.

Senator BAUCUS. I agree with you. I have had personal experiences which back that up. Not too many years ago, for example, we were trying to encourage Japan to relax that quota on hotel and restaurant cut beef. I can remember a time when Japan would take only about 28,000 tons of hotel and restaurant cut beef. I did various things to try and encourage Japan to back off and one is this. Personally, I had a big luncheon at a room back in the Capitol. We had Montana beef and invited the Japanese Diplomatic Corp.

We served the beef under a portrait of Mike Mansfield, hoping that maybe that might help a little bit. But more importantly, I called a press conference for the Japanese Press Corp. I had a big button on me. The button said, "I have a beef with Japan."

I explained to the Japanese Press Corp there that, look, we take your Hondas, your Nissans, your Toyotas, your VCRs, all your electronic products; you do not take our beef. You do not take a lot of our agricultural products. It is a one-way street; it is not two ways. It is not fair; it is not right.

I said at the time I was not in favor of what was then called the Domestic Content Bill—the bill requiring a certain percent of U.S. content to manufacture automobiles. But I said that if you do not open up your market to American beef, I am going to lead the charge in the U.S. Senate to get domestic content legislation passed, flat out.

While underneath the cameras, lots of notes were scribbled. I was amazed. My picture was in the Tokyo newspaper. There was a big article. I cannot read a word of Japanese, but I have an idea of what they said. The main point is this. Then I got letters back from American businessmen in Tokyo saying, "Dear Senator Baucus, I do not know who you are; I never heard of you before, but you are right on. These people are very courteous, they are very decent, they are very nice, but they only understand one language and that is power. That is the only way to get things done and accomplished.

In the same vein, when I was over there not too long ago, I ran across a poll—I guess Phil Seng will give you this a little later—but I have forgotten the name of the Japanese polling firm—Deng Su or something like that. They polled Japanese consumers. I have forgotten exact figures. But I remember as high as, 80 percent of Japanese consumers wanted American beef. They wanted American beef. Contrary to the official position of the Japanese Government.

We told them, hey look, your people want this. They wanted American beef. It was pretty hard for them to argue against that.

Ambassador WILLIAMS. I have had the same experience personally, as well as using these statistics. It is not just power, just pressure. There is in Japan, unlike in most other countries, a tradition of outside foreign influence. The Japanese have a word for it,

called gaiatsu. The Japanese Government has used foreign pressure as an excuse to do things that it was hard for it otherwise to do. The Japanese Government has got competing domestic interests, just like any other government. Rather than choose among those competing interests, it has preferred to say, "We have to do this because of outside influence."

So our role in influencing Japan is an old one. It is nothing that we should back away from.

Senator BAUCUS. Now what can Congress do to help open market access? We are basically the only nonparliamentary form of government, among world economic powers—that is, countries have to deal both with our executive branch and with our Congress. In fact, under our Constitution the Congress delegates a lot of trade policy to the administration; although Congress reserves the right in the trade bills to set that policy.

So how can Congress help our trade negotiators, such as yourself, at getting market access in beef—now upcoming is processed forest products? How can we work together as a team? I mean, does it make sense for one to be black hat and the other wear a white hat or what works here? What is your best advice?

Ambassador WILLIAMS. I think the team approach is better, Senator. Trade is something over which reasonable people can disagree. And if the Executive and Congress disagree, that's the way it is. But by in large we do agree on trade matters. I think it is better for the United States to speak as a government and not as executive and legislative.

Senator BAUCUS. That is very true. I was going to confirm that. In my experience as chairman of the Trade Subcommittee, that is very much the case. It is fortunate that the congressional policy to aggressively open markets is similar to that of the administration.

I just want to publicly tell you how much I appreciate that, you know, that teamwork. It has worked quite well.

Ambassador WILLIAMS. We do too. We think that collaboration has worked well. Congress has its own ways, such as the meetings, to bring matters to the attention of foreign countries.

Senator BAUCUS. How are we doing in getting access to Korea?

Ambassador WILLIAMS. Well we are still in the negotiating stage.

Senator BAUCUS. Beef I'm talking about.

Ambassador WILLIAMS. Yes, I understand. We are still in the negotiating stage. We have scheduled a meeting for January. I left a meeting yesterday with a Korean delegation in which we had a considerable discussion of beef.

We had a major breakthrough on the beef case, as you know, when the Korean Government accepted the GATT panel report. Basically developing countries can avoid many of their obligations under the GATT on what is called "balance of payments" grounds. That is, if they are running chronic balance of payments deficits they do not have to do what the rules would otherwise tell them to do.

The panel report we got from the GATT on beef in Korea said that Korea was no longer entitled to use the balance of payments justification to avoid its GATT obligations in beef or, by inference, anything else.

Under the GATT rules, countries are not required to accept panel reports. There have been instances of long delays in accepting the panel report. But the Koreans have now accepted the panel report. That means they have to undertake their GATT responsibilities, and, under the GATT, we have 30 days in which to reach agreement on the timing of the liberalization.

I wish I could tell you more, but the negotiations are underway now. I can tell you that we will be interested in opening that market as aggressively as we can. But the GATT panel report itself is a major victory for the opening of that market.

Senator BAUCUS. Has Korea been open, more forthcoming generally than Japan?

Ambassador WILLIAMS. Generally, yes. Korea still has more trade barriers than Japan does. But Korea has, in our recent experience, been more responsive than Japan.

Senator BAUCUS. Turning to processed forest products, are you including tariffs on your list of barriers that must be eliminated?

Ambassador WILLIAMS. Yes.

Senator BAUCUS. I asked that because I think some of the American Forest Products Industry are wondering the degree to which tariffs are included.

Ambassador WILLIAMS. Our problem is market access. In the case of forest products, that requires a package, and tariffs are definitely part of the package.

Senator BAUCUS. Okay. Well this has been helpful. So I think I will turn to the next couple of panels. They may have questions of you and I might too have questions of you so we will go with the panel and see what is available.

Ambassador WILLIAMS. Thank you, Senator.

Senator BAUCUS. Thanks for coming to visit our State.

Ambassador WILLIAMS. My pleasure.

Senator BAUCUS. We appreciate it very much.

Our next panel consists of persons interested in our forest products industries. Mr. Stan Dennison, who is Chairman of the Alliance for Wood Products Exports. He's the Executive Vice President for Georgia Pacific. Mike Stein, who is a partner of Dewey, Ballantine, Bushby, Palmer & Wood. That's a long name. He is counsel for the National Forest Products Association. Ramsay Smith, Associate Professor of Wood Science and Technology at the University of Washington. And Don Allen, Executive Director of the Montana Wood Products Association.

Gentlemen, we are happy that you are all here. Why don't you begin, Stan, and then just on down the table there.

Mr. DENNISON. Okay, thank you, Senator.

Senator BAUCUS. Say what you have to say and I will wait until all four of you are finished before I ask some questions.

Mr. DENNISON. All right.

Senator BAUCUS. Don't forget, we heard Ambassador Williams make himself available. You may want to ask some questions of him too.

Mr. DENNISON. Okay.

STATEMENT OF STAN DENNISON, CHAIRMAN, ALLIANCE FOR WOOD PRODUCTS EXPORTS, EXECUTIVE VICE PRESIDENT, GEORGIA PACIFIC CORP.

Mr. DENNISON. My name is Stan Dennison. I am Chairman of the Alliance for Wood Products Exports, a very broad-based special project of the National Forest Products Association, with a goal of opening the Japanese wood products market and increasing sales of U.S. wood products to Japan.

Let me tell you right up front what we are not. We are not an inefficient industry incapable of competing. The U.S. wood products industry is a world leader. Our cost per unit volume are on average far less than Japanese costs. We have made the required long-term marketing effort. For almost three decades, we produced quality products which are in demand in Japan and which could benefit the Japanese consumer and improve the housing situation in Japan.

So why are we here? The reason for being here today, Senator, starts with Congress trade decisions in 1988. The Omnibus Trade and Competitiveness Act was drafted to address our huge trade deficit. I am pleased to say that you, Senator Baucus, played a crucial role in that process.

A central feature of that Act was the so-called Super 301 provision—intended to force open important foreign markets which are effectively closed to competitive U.S. products. Japan was one of the clear targets.

Based on the competitiveness of the wood products industry and the barriers to market access documented by the Department of Commerce, wood products market access was designated as a Super 301 trade liberalization priority. Thus, in June, USTR initiated an investigation of Japanese "policies and practices, including technical standards favoring Japanese products, that restrict the imports of forest products in Japan."

USTR also initiated investigations against Japanese barriers to supercomputers and satellites. But given market realities, however, it is clear that wood products is the only designated Super 301 trade priority in which large export gains can actually be made and, thus, a key to effective implementation of Congress' trade policy.

Now given Japan's response to the negotiations to date, we have serious doubts that this process will meet Congress' intent of opening closed foreign markets. Limited success on minor technical barriers will not open the Japanese market and will not result in the export gains which are possible. Nor would such limited success meet Congress' trade policy objectives.

Japanese tariffs and tariff escalation must be eliminated and unnecessarily restrictive codes and standards must be modified. This is where we need your help.

These negotiations are likely to succeed only if Japan understands not only the technical merits of the U.S. position, which are rock solid, but Japan must also understand the political necessity of solving these problems for overall trade relations. Japan must understand that failure to open this market, which has been listed

as a paradigm for Japanese willingness to liberalize, could be taken as an unwillingness to seriously address the trade imbalance.

Alternatively, Japan must be made to understand that opening this market would reduce the cost and improve the availability of high-quality building products for Japanese consumers. Opening this market would increase the consumption of wood products in Japan. Opening this market would strengthen Japanese efforts to maintain trade in raw materials.

We hope that you can help us in communicating these messages to Japan and in assisting the administration to demonstrate to Japan the necessity of progress. The political reality is that without that kind of increased political focus—in Congress and in the administration—Japanese concessions are likely to be late, little and ineffective.

The time for action is now. Six months from now, if negotiations are moving toward an unsuccessful conclusion, it will be too late. The focus and attention necessary to make these negotiations a success must come now.

I would like also to take a moment to discuss the possible benefits of success. Those benefits—both for the U.S. industry and for the U.S.-Japan trade policy—are enormous.

Currently, despite our efficiency, despite our marketing efforts, a web of Japanese tariff and non-tariff barriers seriously impede the importation and use of wood products in Japan.

As a result, while the Commerce Department calculated that U.S. lumber mill costs averaged from about 33 to 50 percent of Japanese costs on a per volume basis and U.S. plywood mill costs averaged about 50 percent of Japanese costs—and in a handout here we—I'm missing the first chart, by the way, that shows that, but I would be glad to send it to anybody who would like to have a copy of it. It was not on purpose and I have a copy of it. Japan still imports primarily raw materials from the United States. In 1988, as mentioned by you, over 70 percent of Japan's wood product imports from the United States by value were raw materials. the opposite of the situation in the rest of the world where 69 percent of the wood product imports from the United States are value added—we have a chart in your handout on that—in fact, if you compare developed regions' imports from the United States, Japan's failure to import value-added materials is even more stark—and there's a chart in there on that.

U.S. Government and industry sources estimate that removal of barriers could increase U.S. shipments of value added wood products to Japan by from $500 million to $2 billion annually. I personally think it is a lot closer to $2 billion.

I would like to now ask our counsel, Mike Stein of Dewey, Ballantine, Bushby, Palmer and Wood, to discuss the specific Japanese barriers with which we are concerned. Let me note, however, that elimination of the broad group of these barriers is necessary if we are to have true market access.

First, Senator, if you would allow me, on a personal note, to say something, not regarding the Alliance, before going to Mike Stein. I think you have been a true leader in supporting the wood products industry and other agricultural industries. I might say, your

State should be very proud of having produced such a great Senator.

Senator BAUCUS. Thank you, sir, very much.

[The prepared statement of Mr. Dennison appears in the appendix.]

Senator BAUCUS. Mr. Stein.

STATEMENT OF MICHAEL STEIN, PARTNER, DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD, COUNSEL, ALLIANCE FOR WOOD PRODUCTS EXPORTS

Mr. STEIN. Thank you, Mr. Chairman.

My name is Michael Stein, Counsel to the Alliance for Wood Products Exports. As Stan said, this is a competitive industry, fully capable of competing in Japan. The plain fact is that what is keeping us from making enormous increases in our exports to Japan is an interlocking web of tariff and nontariff barriers that we feel must be eliminated if there is to be equity in our bilateral trading relationship.

I would also like to echo the point that solving this problem benefits not only the wood products industry in the United States; it benefits the Japanese wood products and construction industries, the Japanese consumer and overall U.S.-Japan trade relations. Despite the fact that there are these obvious benefits to be obtained, obtaining them will not be easy.

In fact, Congress will have to make it perfectly clear that dramatic progress is needed in this area, otherwise results will be, as Stan says, little, late and ineffective.

But the point I want to make is that we can succeed if we can focus the discussion with enough congressional and administration interest, and we can communicate our concerns effectively to Japan now.

What I would like to talk about today, however, is the actual Japanese barriers. Why is it that we are unable to sell wood products in Japan?

Japanese tariffs and the structure of the Japanese tariff system—what is called tariff escalation—with tariff increases at each stage of processing pose a major barrier. There is no tariff on logs, but then a tariff on the next stage so that the effective rate of protection is much higher at each stage of processing seriously impeding importation of U.S. wood products.

Even on a nominal basis Japanese wood products tariffs are much higher than U.S. tariffs. But what is really harmful is this tariff escalation. The effective rate of protection on value added products resulting from tariff escalation is very dramatic.

The U.S. industry has worked for years to eliminate these tariff barriers, but those efforts have met with only limited success.

In the Tokyo round of multilateral trade negotiations, wood products were included with agricultural products. And as you know, Senator, on agricultural products it has been particularly difficult to get what are called tariff bindings to get agreements to eliminate tariffs. Progress was less than had been hoped. The U.S. industry is particularly reluctant, therefore, to rely exclusively on the Uruguay round for tariff reductions as the Japanese have sug-

gested because, again, the Japanese have asked that wood products be placed under agriculture. Real progress on tariffs in the Uruguay round is unlikely because of this fact.

While the so-called MOSS talks—Market Oriented Sector Specific talks—that we engaged in with Japan over the last few years, did result in significant cuts in some wood products tariffs, the MOSS talks clearly contemplated further tariff reductions once the agreed cuts had been made and implemented. Japan has refused, however, to continue tariff negotiations.

The U.S. industry views tariff elimination as crucial to real market opening, which is the purpose of this endeavor. Solving some technical barriers, while leaving high tariff escalation in place would not result in opening the Japanese market because of the continuation of those tariff barriers.

Let's talk about some of the nontariff barriers, however. In addition to tariffs, a web of unnecessary Japanese standards and code restrictions inhibit the use of wood products in general and imported North American products in particular. Generally, these code and standards provisions are prescriptive. Rather than requiring building materials to meet certain performance requirements for structural integrity and safety as is preferred under international trade rules, they simply specified what products will be used.

I want to again be perfectly clear about what we're not asking. We are not asking that Japan impair in any way the safety of Japanese consumers. There is much talk of fire protection and earthquake protections, but wood products are a safe building material. In many cases, safer than the alternatives. Similarly, reasonable performance-based codes would fully protect the lives and safety of the Japanese and in many cases would actually provide better safety for Japanese consumers than they have under their current prescriptive standards.

In this regard, inaccurate and distorted reports from the Japanese Government and press suggesting that the changes which the United States is seeking would endanger safety in Japan are counterproductive, both to this process and to U.S.-Japan trade relations in general.

For example, after the tragic San Francisco earthquake, an official of the Japanese Fire Marshall's Office issued a press report that wood buildings in San Francisco had sustained significant damage and that for safety reasons Japan had to prevent further modification of its building code. That report simply was factually inaccurate.

In the San Francisco earthquake, as in previous earthquakes, wood buildings constructed under modern codes performed exceptionally well, far better than many other forms of construction—as is confirmed by actuarial data from the California Insurance Board.

Indeed, the combined strength and flexibility of wood makes it particularly safe in earthquakes. Japanese reports concerning safety concerns—like reports on wet snow and short intestines which surfaced in previous trade disputes—are counterproductive and can only serve to impede a resolution of this matter.

Let me give you a few specific examples of the type of codes and standards problems we are referring to.

Japan's building standards law does not permit multi-level, multi-family wood housing—such as the garden apartments that many U.S. citizens choose to live in; and we believe many Japanese citizens would also choose to live in if given the opportunity.

Wood commercial buildings or multiple use buildings cannot be built in Japan.

Four story wood homes or wood buildings over underground parking garages cannot be built in Japan.

In addition, Japan seriously limits the ability of imported products to be certified for use in Japan. Thus, while many countries, including West Germany, the United Kingdom and Sweden, recognize the grade stamps of approved U.S. agencies as certifying performance to specified levels, Japan refuses to recognize U.S. grade stamps. Even when U.S. agencies have gone through the considerable trouble and expense—and years of time—required to obtain the right to apply the Japanese Agricultural Standards stamp in this country, unnecessary restrictions limit the cost effective use of that stamp.

These restrictions not only harm the United States and Japanese wood products industry, but they injure the Japanese consumer. Both for the sake of trade relations and for the inadequate housing conditions in Japan, these barriers to the safe, cost-effective use of wood products should be removed.

Customs misclassification is also a problem. In clear violation of the classification requirements of the Customs Cooperative Council nomenclature, to which Japan subscribes, Japan has misclassified several high-tech U.S. wood products. These Customs misclassifications have artificially increased the tariffs on structural laminated lumber products—so-called glulam products—and laminated veneer lumber (LVL) from the rate it should be at, 3.9 percent; in fact, these products are charged a tariff of 15 to 20 percent. This is a problem that ought to be resolved very soon.

Another problem is subsidies. Numerous Japanese subsidies result in the production of wood products which would otherwise be uneconomic. Two types of subsidies are of particular concern in these negotiations.

First, in response to the MOSS market-opening concessions, the Japanese Government authorized a massive group of what they called counter-liberalization subsidies—that is, with one hand they said, we will liberalize our market to let you compete; with the other hand, they said to their producers, well we know we've opened the market, but here, we will give you money so that in fact the market opening will not be effective. A massive group of counter-liberalization subsidies that were intended and did offset to some extent the effects of eliminating other trade barriers. Counter-liberalization subsidies should not be permitted in response to future market opening, because if those subsidies are permitted, the market is not open.

Second, the Japanese Government has some capital and operating subsidies which have directly contributed to wood products production which would have otherwise not occurred. For example, some capital subsidies have obviously been used to finance modification of hardwood plywood mills—which can no longer obtain ade-

quate log supplies—to producers of laminated products, in which the U.S. industry excels.

Both of these types of subsidies should be prevented.

In addition to wood products specific barriers, Japanese wood products consumption and importation is also impeded by structural barriers. These barriers include restrictive land and housing policies, anticompetitive practices and an inefficient distribution system. Ambassador Williams, I think, was eloquent on these points earlier today.

While the U.S. industry realizes that reforms in these structural areas are only likely to have an effect in the long-term, we fully support the administration's efforts to address structural barriers in trade negotiations. The effect would be lower priced wood products and an inevitable increase in consumption.

The United States and Japan are now engaged in negotiations concerning wood products. The administration has agreed that those negotiations should address the breadth of the barriers raised by the industry. Unfortunately, Japan so far has shown little willingness to modify its restricted market barriers.

Japan and the Japanese industry must be made aware of the importance of a successful resolution of these matters.

For trade policy perspective, the United States needs a signal in wood products negotiations that Japan is serious about opening sectoral markets and addressing the trade imbalance. This is a case where we make a product that Japan wants and needs. They ought to be willing to buy it.

Increased imports of high quality, reasonably priced wood products would benefit Japanese consumers and improve the quality and affordability of Japanese housing.

With respect to trade in wood products, real progress in opening the Japanese market to value added wood products would have an enormous beneficial impact in this country with respect to trade policy decisions concerning logs.

Failure to make real progress on wood products would seriously affect Japan in terms of further implementation of the Omnibus Trade and Competitiveness Act—including designations in 1990—and in possible future legislation.

Removal of the barriers would not significantly injure the domestic industry in Japan because increased consumption would more than compensate for increased imports.

We hope that Congress will assist the U.S. industry in effectively communicating the importance of a successful resolution of this problem to the Japanese Government, Japanese industry and parties involved in the United States. Success is so important to the U.S. industry and to U.S.-Japan trade relations. We are concerned that success will evade us, however, if Congress is not a full participant in this process. As I indicated earlier, the time for action is now.

Thank you very much, Mr. Chairman.

Senator BAUCUS. Thank you very much, Mr. Stein.

[The prepared statement of Mr. Stein appears in the appendix.]

Senator BAUCUS. Next is professor Ramsay Smith.

STATEMENT OF RAMSAY SMITH, ASSOCIATE PROFESSOR, WOOD SCIENCE AND TECHNOLOGY, COLLEGE OF FOREST RESOURCES, UNIVERSITY OF WASHINGTON

Mr. SMITH. Thank you, Senator.

My name is Ramsay Smith and I am an Associate Professor at the University of Washington in the College of Forest Resources as a wood scientist and technologist. I also work with the Center for International Trade in Forest Products (CINTRAFOR) which is a research center at the college. For the past 4 years I have been studying the Japanese wood construction and other wood markets in general, trying to understand them, trying to understand how wood is used and why it is used within the country.

What I would like to do today is provide some background and information on the forest products flow between the United States and Japan, provide some insights into the construction industry, and some thoughts in the trade barriers. These will pertain primarily to the building codes, material grades and lumber grades that can be barriers to many forest products flows, especially with respect to the two by four construction of houses in Japan.

I would like to end with a gross estimate of what might the market might be if these barriers were overcome.

I will hold my remarks to these specific areas since a lot of the other areas are being covered today as well. I have a written testimony which I would like to submit, but with your permission I would just like to discuss these in general.

Senator BAUCUS. Yes, all written statements are automatically in the record. Feel free to summarize.

Mr. SMITH. All right. Thank you.

If we look at the current situation and taking 1988 as a typical year, which I think it can be, Japan consumed over 3.76 billion cubic feet of wood. About 60 percent of this was solid wood products and about 40 percent was pulp and paper products. Their wood imports was about two-thirds of this amount and was comprised primarily of logs, which we are probably all aware, of about 46 percent and wood chips at almost 25 percent. These are primarily raw materials for their industries. Lumber comprised another almost 14 percent; and pulp, 13 percent.

If solid wood products are separated from pulp and paper, it can be shown that logs comprised almost 70 percent of all the imports of wood products within that country. If we take a look from the United States we'll see that most of the material that was supplied to Japan in forest products came from the Pacific Northwest, with about 63.2 percent of the total from Washington and Oregon. The United States realized about $3.145 billion of forest products trade with Japan in 1988 and Washington and Oregon was $1.9 or almost $2 billion of this. Again this was primarily logs.

There are many indicators to me that the use of wood and wood products in Japan is going to remain high. If we take a look at all the wood that was consumed, about 77 percent of all the solid wood was in construction. If we take a look at the construction or housing industry, about 1.7 million housing starts were realized in 1988 and there is a slight decrease in this in 1989 as we see it.

This will remain, I think, because these are replacements of dilapidated houses that were built after the war. And also the Japanese Government's desire to open and increase the housing supply to its people stated several times.

If we take a look at the amount of wood being consumed in the housing market we will see that it has declined in the number of wood houses from about 65 percent of total housing starts in 1975 to about 42 percent in 1988. This is primarily due to the increase of multi-family housing in which wood is restricted and has codes and other regulations which limit its use.

There is also an increase in prefabricated structures, which are primarily concrete and steel, which are competitively priced with respect to traditional wood construction because they have a very fast erection time. Their cost is lower because of this decrease in construction time. Also, it has been said that with prefabricated housing, which there are some very large housing manufactures in the world, that they do not provide the natural feeling of wood or they would have increased much greater than the 15 percent of the market that they compose now.

Platform frame housing, using North American materials, was introduced in Japan about 17 years ago. It was introduced at a time when the exchange rate was 340 yen to the dollar and there was not a large expectation of a great quantity of material to flow into that as finished goods. So at that time, a compromise was made to allow U.S. lumber as long as it would be graded using JAS—Japanese Agricultural Standard—grades. We will see that this has really come back to haunt us to a large extent.

There is a real problem in using the JAS standards because their lumber grades are based primarily on appearance grades. In addition, their conventional wood structures is a post and beam house or home. This is an open structure which uses structural beams to enhance the visual trim on the interior. The same beams that are used structurally, therefore, limits knots due to the visual demand, not strength requirements. They do a very beautiful job and have a very beautiful construction method. But it is very slow and very expensive.

So the size of their members are such that the strength is inherent and they base their lumber grades on visual quality or appearance. Lumber grades in this country however are based on strength since we do place them in the walls and do not care if there is a knot present as long as the strength is there.

So what really is going on is, our form frame construction requirements are different than their conventional construction and our lumber grades have to force fit into a system that is not meant to do what they were intended to do. So there is no compatibility between our lumber grades and theirs.

Also, the government requires, especially on any government funded structures, that all lumber and all pieces be stamped with the JAS stamp. This means that each piece going to Japan either has to be regraded in Japan or the mill here has to go out and obtain certification through the Japanese Ministry of Agriculture, Forestry and Fisheries, both of which are very expensive and very costly procedures. Mills that have obtained stamps have each spent anywhere from $40,000 to $60,000 plus just to obtain it.

The U.S. platform frame construction system is also being shown to be less expensive than their conventional residential structures. There are several studies which indicate costs, one of which I worked on sitting on a committee organized by the Government Housing Loan Corporation. This study resulted from analyzing a development of 25 homes called Seattle/Vancouver Village, in which cost comparisons were made. These comparisons were made with traditional Japanese wood housing and prefabricated housing.

The cost was approximately two-thirds of that of traditional Japanese housing and very comparable with the pre-manufactured housing areas. So the North American housing techniques and construction systems are very competitive and very realistic, while maintaining a very high quality.

The platform frame construction method which has developed in the United States can be very beneficial to the Japanese market and Japanese people as well. It is less costly for the consumer which is sorely needed because of the high land prices. It is a quality construction. It has heating and cooling advantages over the traditional Japanese construction. It takes about two-thirds less construction time than traditional construction methods and there are better profit margins for the builders.

We have had a tremendous increase in the number of builders trying to get information, coming to the United States and looking at our systems.

Currently, however, 2x4 housing only comprises about 3 percent of the total housing market. One primary reason for this is a labor shortage of technical know how using this system. Other problems include obtaining visas for construction workers to help transfer this knowledge; the JAS requirement thereby increasing product cost and inconvenience; and the fact that the early 2x4 homes were built on a 3x6 basis, not a 4x8 basis. The 3x6 basis is a modified 2x4 and modified Japanese traditional construction that really did not decrease the cost that much when compared directly with the traditional housing. The 4x8 module is what we use here. There is really no difference to the size of the module however it is the construction system that we use which is much more efficient. This is comprised of specialized crews of workers that go in and perform specific tasks efficiently and keep the labor costs to a minimum. The 4x8 module also allows more efficient use of our building products.

Multi-family wood structures, as I mentioned before and has been mentioned previously, are restricted due to the fire codes. This is primarily based on the traditional housing design, again, being on an open basis and filled with screens—the shoji screens which are quite flammable. Once a fire started it would move very quickly through the house. In fact, they were looked at as fire traps.

Due to this then, multi-family housing codes require "non wood" building material for all horizontal separation. This greatly limits use of wood in most multifamily units. These codes are administered by the Ministry of Construction and are, as also mentioned before, prescriptive codes. In other words, wood is looked at as a material that burns; therefore, it cannot be used in a specified fire

zone. It has not been looked at as part of a system component as it is here and should be.

In addition, the officials who administer this at the Ministry of Construction are primarily trained in concrete and steel and they really do not have a wood background; and are, therefore, professionally biased or biased just through lack of knowledge in the use of wood.

The problems are compounded when lumber grades and housing codes are viewed together. The JAS grades are administered by the Ministry of Agriculture, Forestry and Fisheries, and the building codes are administered by the Ministry of Construction. We therefore have to work with two agencies that are vertically oriented and organized. They do not have good communication between them. So working with a system which encompasses both agencies sometimes you get a lot of conflicting advice, but also it is very difficult, to say the least, to get anything changed within this type of system.

I would, therefore, propose that your Committee very strongly press for acceptance of our codes and material standards when used in a platform frame construction in Japan and when using our building systems. We have 200 plus years of data and background using this system. It has been proven over and over to be high quality structurally sound, and long lasting when used correctly.

Our lumber grades and our building codes do not correspond directly to their construction, but they do to ours. Therefore when using our construction methods in Japan trying to force feed our lumber grades into their existing lumber grades does not fit at all well and is a barrier to trade. I would suggest that the use of our codes and grades be recommended strongly when used for platform frame structures. We should also back this with research and cooperate with Japanese researchers. The United States should also maintain a data bank for construction quality for which the San Francisco earthquake provided a very good proving ground. This type of data is necessary.

The potential of the Japanese market if these grades and codes were to be accepted in Japan is very difficult to determine—but if you take a figure that is published by the Government Housing Loan Corporation in Japan, that an average house has a square area of about 125 square meters and it is suggested also in studies that we have done that about 30 percent of a wood house—excuse me, the cost of materials in a wood house—is wood materials, and using 140 yen per dollar, I have calculated that approximately each house—or wood house—would consume $35,935 worth of forest products.

That is currently a $23.8 billion market in Japan with the current housing starts. Now with a change in codes, the lower cost in high quality housing, plus the addition of multi-story and low rise wood structures we should, I believe, very easily see a return back to a 65 percent wood housing starts as in 1975.

This would bring this market to a $38.8 billion market in Japan. Now this is a market that would be shared by all of course. It certainly would be enjoyed by the Japanese consumer for the lower prices and costs, the Japanese forest products industry, Japanese

home builders as well as the exporters to that country of forest products.

Thank you very much for your time.

Senator BAUCUS. Thank you. That was very interesting.

[The prepared statement of Mr. Smith appears in the appendix.]

Senator BAUCUS. Don, you are our wrap-up here.

STATEMENT OF DON ALLEN, EXECUTIVE DIRECTOR, MONTANA WOOD PRODUCTS ASSOCIATION

Mr. ALLEN. Thank you, Senator. Senator Baucus, thank you for allowing me the opportunity to speak here today. My name is Don Allen. I am the Executive Vice President of the Montana Wood Products Association, headquartered in Helena. We represent about 90 percent of the lumber processed our members do in the State of Montana.

I am here to express the Association's strong support for U.S. Government and industry efforts to eliminate barriers that impede our ability to export wood products to Japan.

As you know, Senator, forest products are of immense importance to the economy of our State. The Montana forest products industry is our State's largest manufacturing activity with sales of $900 million in 1987. The industry directly employs about 10,000 workers and gives rise to an additional 20,000 jobs in connected sectors. In our western counties, the wood products industry amounts to almost half of the economic base.

An overwhelming 90 percent of Montana's forest products are shipped out of State. Although exports traditionally have been a relatively small portion of these shipments, we Montanans, like people throughout the country, have made a commitment to sell in foreign markets. We feel confident that, given a fair chance, we can go head to head with the competition in foreign markets and win.

Montana produces some of the finest wood products in the world, including lumber, plywood and particle board. Montana companies also produce such finished products as laminated beams, roof and floor joints and paneling. We believe that nobody can beat Montana wood products for quality and price, and we want to prove it.

How strong is the competitive position of the U.S. wood products industry? You have heard some of that from some of the earlier speakers today. But according to recent U.S. Government studies, our mills can deliver lumber and plywood for less than half the cost of our Japanese competitors. Our forests are larger, easier to harvest. Our land, labor and energy costs lower; and our mills larger and more efficient. With these cost advantages, we should be able to trounce the competition.

Unfortunately, we are not always given the chance to compete on equal terms in foreign markets. Japan, of course, is a major problem area. Although it is a potentially enormous market for the U.S. industry, we have found it hard to sell our wood products there in the volume you would expect given our competitive advantage over the Japanese industry.

The simplest and most significant barrier to the sale of our products to Japan is tariffs. You have heard that referred to earlier as

part of the whole package, it is certainly one of those that has to be dealt wi'h as part of that package. Until these tariffs are lowered to reasonable levels, we will not have real access to the Japanese market. Considering the huge $50 billion trade deficit we run with Japan, this situation is inexcusable.

Worse yet, the more advanced the product, the higher the effective tariff rate. Thus, the Japanese tariff on unfinished lumber is around 10 percent, while the U.S. tariff is zero. But the Japanese tariff on laminated lumber, a product we make here in Montana, is 35 percent—once again, the U.S. tariff is zero.

As an aside, Senator Baucus, I might mention that at a meeting we had just yesterday of our industry regarding our plans for next year, goals for next year, one of the top items on the agenda in talking about looking ahead to next year in 1990, is the fact that we think that the decade ahead that the value added part of our industry is going to be something that will automatically take on more significance in the years ago.

So this particular point as has been referred to by at least two of the other speakers today, certainly is of great importance.

The results of these tariff barriers is that Japanese companies, in spite of their inefficiency, buy U.S. logs, ship them to Japan, and process them themselves. In my opinion, this is exporting jobs, plain and simple.

Some of the problems facing us have to do with Japanese Government policies that prevent Japanese consumers from buying our wood, whether they want to or not. As a result of these policies—again, you have heard some of them referred to today earlier—the Japanese simply do not consume as much lumber as other developed countries. Considering the traditional Japanese preference for wooden homes, this is a surprising situation.

As an example, Japanese building regulations prohibit the construction of wood commercial buildings and garden apartments. When you ask why, they say it is because such buildings are unsafe.

This is nonsense. Wood buildings, properly designed and constructed, are among the most durable structures around. If you walk through Billings or Helena or Mosula, any other Montana town, you will see countless examples of quality wooden structures designed to endure some of the harshest climatic conditions around. Sure, the Japanese have earthquakes. But what about our winter weather? What about our wind? As all of us in this State know, it can blow pretty good along the eastern front and yet you find wood constructed homes all in that area.

Another problem is unreasonable Japanese regulatory practices that make it hard to sell in Japan. You have heard those referred to earlier, regarding the grade stamps. I will not repeat that. But let me just conclude in a general statement and say that folks here in Montana have nothing against the Japanese. We have a very excellent relationship, as you know, Senator, with our sister State. We have a lot of good exchange. They are hardworking people, like Montanans are, and make a lot of good products.

When they can provide it quality good at a competitive price, we, like other Americans, buy it. There is nothing wrong with that. That is what the free trade issue is all about.

What bothers me is that the wood products industry is not getting the same treatment from Japan. We buy Japanese pickups, consumer electronics and other manufactured goods when their quality is high and the price is competitive. I think we should be able to expect the same treatment from the Government of Japan.

The Montana wood products industry appreciates the efforts of the U.S. Government and the support of this subcommittee to ensure that we get it.

Thank you very much for the opportunity. And let me thank you also for holding this hearing in our great State.

[The prepared statement of Mr. Allen appears in the appendix.]

Senator BAUCUS. You bet. Thank you very much, Mr. Allen.

I would like to concentrate on a statement that, Mike, you mentioned—Japanese Fire Marshall. As I understand it, he came over to San Francisco after the quake and came back and issued a report back to Japan saying, you know, all the wood structures collapsed. That is American wood structures. They all collapsed. They tried to, I think, set the stage in Japan to buttress their argument that they should not open up to U.S. processed forest products, lumber.

Here is your chance. Tell us, tell the world, why American wood structures are safe. Here is your opportunity to blow that Fire Marshall out of the water.

Mr. STEIN. Do you want to go first?

Mr. SMITH. Sure. I would be glad to.

The type of construction that we have is a series of units that are tied together. It is called a diaphragm system, in essence. What it does is make a complete unit out of the structure so that with, for example, for the earthquake stability, the racking resistance which is the resistance against collapsing to one side, is very strong and good with wood. Wood is a resilient material. It can absorb energy when shocks come in.

Senator BAUCUS. Well I suppose the first thing is that it is not true that wood products collapsed?

Mr. SMITH. Very much.

Senator BAUCUS. During the San Francisco quake, compared to concrete structures.

Mr. SMITH. In fact, looking at the studies that have been done and that are still going on with the wood structures there, there is a few areas of wood failure and that was due primarily to either structures that were built before 1973 or usually in the case of about 70 years old, so they do not conform with the codes that we have now and this diaphragm system or that there was gas mains or lines that were broken for fires that came about—not due to structural damage due to the quake itself or due to the instability of the soil.

Senator BAUCUS. All right. The first question is: Are wood structures generally more or less safe? The second question would be: Would American wood be any lesser or more safe?

I am reminded of the Japanese statement not too many years ago that they could not import skis because Japanese snow is different from other country's snow. And they could not import beef because—somebody said it—their intestines are longer. You know, they cannot digest American beef, which is all nonsense.

Mr. STEIN. Let me answer that, Senator.

Senator BAUCUS. Yes.

Mr. STEIN. Americans care no less than the Japanese about safety regarding fire and earthquake. The question is: How do you ensure that structures are safe? The American system is to establish performance criteria. Say you have a fire door. You would say that fire door must prevent temperatures from rising on the other side of that door by a certain amount within a certain period of time.

What material is used is irrelevant. So long as the degree of safety has been established in the code, any material that meets that degree of safety can be used in the United States, in Western Europe, in every other developing country. This is the way construction codes are drawn up. This is done so that as technology advances, these advances can be incorporated into construction and the benefits of new materials and finding new uses for older materials can be achieved.

In Japan this is not how they do it. They have a standard for fire doors. They say those fire doors shall be made out of steel.

Senator BAUCUS. So they are not performance oriented.

Mr. STEIN. In fact, a steel door might warp in certain types of fires and might be less safe than a wood fire.

But the question is not: Is wood safer than steel or steel safer than wood? The question is: How does a government go about protecting its citizens and is there a better way to do it?

We think the rest of the world has found a better way to do it and that way is to determine the level of safety and then allow anyone who wants to, if they can meet that level of safety, to build their buildings.

Senator BAUCUS. So your basic point is that if the Japanese standards were performance standards that wood will do very well.

Mr. STEIN. We believe wood would do fine. That at least in every other country that has established performance standards wood has met those standards. We believe that the Japanese are not unique in their desire to protect their citizens.

Senator BAUCUS. Do you have any examples of other countries where there were performance standards and the wood has done very well?

Mr. STEIN. Yes. The United States, everywhere in Western Europe, Australia, New Zealand.

Senator BAUCUS. Why do they say they do not want to have performance standards?

Mr. STEIN. I do not believe they have given a principal reason. I think they have not wanted to have performance standards because in their view their prescriptive standards have worked just fine for their purposes—that is, they are content with the status quo because it is not clear that they have much of a need for this in changing these in order to benefit American exports.

Mr. DENNISON. I think it is a protective measure, Senator. I cannot see it any other way. I have visited Japan lots of times and tried to export to them a lot. Most of these things appear to me to be a way to protect small, inefficient industry. A prescriptive standard can be very dangerous against a performance standard. It might look good, but it might fail.

We know absolutely that our wood standards do perform as they are supposed to under our grade standards.

Senator BAUCUS. I agree with you. At least based on limited personal experience, many years ago at the conclusion of the MOSS talks in San Francisco, I think between Prime Minister Nakasoni and President Reagan, I visited Japan and went to see a Mr. Tenaka who was the head of the forestry section of the Ministry of Agriculture, Forestry and Fisheries. I somewhat naively said, "Mr. Tenaka, I am here to help you implement the MOSS talks, that is with respect to processed forest products."

He said there just solemnly and sullenly—there was a little desk there, he is an older man—he said, "My job is to protect the Japanese forest products industry." He did not care what Prime Minister Nakasoni said. He did not care about anything else. I mean it was clear that he was there to protect the Japanese forest products industry and he had no intention of working to try to open up Japanese markets.

I often went to Japanese mills and it has just stunned me how inefficient they are compared to American mills. I remember a plywood plant—a Japanese plywood plant—I went through. Gosh, it was the complete opposite of what you hear about Japanese efficiency and so on and so forth, compared to say a Montana plywood plants. It was just incredible.

So on that point, I wonder if you could draw up for us a little more of the relative disparity, inefficiency and quality of, say, Japanese production versus the American production. We are trying to make the point that we Americans have a very highly efficient operation and we should, therefore, more easily sell in Japan.

Do any of you have any figures, any data that you can show the relative greater efficiency of the American processed forest products?

Mr. DENNISON. I think one of great importance is that the Department of Commerce found the U.S. plywood industry to be at the cost of about 50 percent of what it was in Japan. That is like saying, if it costs $300 here, it would cost $600 in Japan. I think it is terribly serious from the standpoint of the Japanese consumer. You are not getting a fair shake with what its government is trying to claim that it does for them.

For example, on sawmills, total cost to the United States $187 to $332 is certainly profound. In Japan the small and medium sized sawmills ran $800; and the large sawmills ran $486, but that is leaving out labor and energy which were not available to the surveyors. So I would say somewhere around $500 to $550, actually. Costs are so much lower than theirs on delivery basis. Our quality is top notch world over in not only West Coast products, but having a little bit of a southern accent, Senator, I might say that our products all over the United States—Northeast and Southeast, as well as the West Coast—are superior products to anything made anywhere else in the world and less costly because we have the greatest productivity in the world.

Mr. STEIN. Senator, can I make one point. Japanese costs are high in large part because this is not an industry that has faced competition and has to compete. It is not the intention of the U.S. wood products industry to destroy the Japanese forest products in-

dustry. Our belief is that demand in Japan if left to market forces would increase enough so that their industry could prosper as our markets in Japan grew also.

I think it is an important point to make that this is not an "us versus them" situation.

Senator BAUCUS. What is your assessment of the status of the negotiations thus far?

Mr. STEIN. My assessment of the status. Stan had something in his testimony and I would like to second it. That is, it is not our impression that the Japanese Government is yet seriously engaged in these negotiations. I think we are very lucky to have Linn Williams running this. I think he is a most impressive and knowledgeable leader of these negotiations.

However—and I think the message he is sending and the message that Carla Hills is sending to Japan is clear. Whether that message is also being sent by the rest of the administration, just as the Ministry of Agriculture, Forestry and Fisheries had as its job protecting Japanese agriculture, Mr. Williams and Ms. Hills have as their job promoting U.S. trade.

The entire U.S. Government, however, has to send this signal. It is not clear to us that what Ambassador Williams is saying and what the Japanese are hearing is exactly the same. In other words, it is not clear to us that the Japanese understand the importance of the Super 301 process and that they have an interagency process as we do. It is not clear to us that their interagency process is engaged now in making the sorts of decisions that would be necessary if progress were to be made in the time frame of the Super 301. So that is our very concern.

Senator BAUCUS. That is a good point. Frankly, with that concern in mind, I held a press conference on Wednesday for the Japanese Press Corps, saying that as Chairman of the International Trade Subcommittee that it is my hope and I am going to see to it that we do reach a successful conclusion, not only to keep the other agencies feet a fire, but also to send a very clear signal to the Japanese negotiators that we are serious—this is serious business.

Ambassador WILLIAMS. Good.

Mr. STEIN. I think that message has to get across if we are to make progress. I think our negotiators are doing a fine job. They have presented an excellent case. But they alone are unable to get the Japanese Government to engage in a way that would lead to——

Senator BAUCUS. I have sometimes found the Japanese are a bit different in negotiating than some other people. That is, you get nowhere, nowhere, nowhere, nowhere until the last moment and finally things break apart.

Mr. STEIN. This is true. Unfortunately, you don't know whether it will lead nowhere, nowhere, nowhere, nowhere——

Senator BAUCUS. Exactly.

Mr. STEIN [continuing]. Or somewhere or nowhere, nowhere, nowhere, nowhere, nowhere.

Senator BAUCUS. That is right.

Mr. STEIN. Our theory is that one would expect to be seeing more of the Japanese interagency process at this point if, in fact, we

were going to get progress on all of the issues that we are talking about.

Senator BAUCUS. They also have another Japanese saying that all negotiations, the last inch is darkness. I do not know what that means, but it sounds a little ominous.

Thank you very much, all of you. I appreciate your time. First of all, I finally want to thank you, Stan. I want people to know that Stan got up at 2:00 this morning, Montana time, to come from Atlanta. [Laughter.]

Mr. DENNISON. It was a little warmer there, too.

Senator BAUCUS. Thank you all for coming.

Our final panel I believe is Phil Seng, Senior Vice President, International Programs for U.S. Meat Export Federation; and Herb Townsend with the Montana Stock Growers.

Let's begin with you, Phil, you are the expert here. Before you begin, I would just like to say that a couple of years ago when I was in Japan trying to help Phil promote U.S. beef—in fact Phil arranged a food fair visitation exposition. We had a lot of American beef there and Phil taught me how to say delicious in Japanese. So in front of Japanese cameras I learned to say oeshi several times.

But I was very impressed with Phil Seng. Phil knows Japan. He is very experienced. I think as much as anyone, any single person, Phil, you are responsible for the progress we have made in Japan. I mean, I want to take my hat off to you. You have done a great job.

Mr. SENG. Thank you very much.

Senator BAUCUS. You bet.

STATEMENT OF PHILIP M. SENG, SENIOR VICE PRESIDENT, INTERNATIONAL PROGRAMS, U.S. MEAT EXPORT FEDERATION

Mr. SENG. It is a pleasure to be here. I will try and be brief because I see the time quickly elapsing.

Most of my career has been involved with Japan, as you have indicated. The beef agreement with Japan was monumental because the liberalization of Japan's beef market basically was one of the most contentious issues between the United States and Japan for a number of years, actually since 1978 when both governments reacted.

At that time, I think the first year we sold 13,000 metric tons of beef to Japan. At the end of the 1988 agreement that we just completed, we will be selling 394,000 metric tons of beef to Japan in 1991. You can see how significant just ten years makes in negotiations with Japan.

Most of my career I have been basically rallying against the complex Japanese distribution system, against the ills of the LIPC, the system that was basically in charge of the administration and distribution of imported meat products in Japan. But with the conclusion of the beef agreement on July 5 of 1988, it even has added significance because it shows that the Japanese have reversed to some degree 35 years the hallmark of their agricultural policy which has been protectionism and now are ushering in competitiveness into their agriculture.

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Ambassador Williams indicated in negotiations that he endeavors to create a ripple effect in the distribution system in Japan. During his remarks, I thought of the ripple effect caused by the beef negotiations. We are now witnessing tremendous changes in Japan's beef distribution system because of the beef negotiations.

Within the past year, as the Japanese open up their market for imported beef—and if their farmers are going to compete they realize they must become more competitive because the U.S. producers are about three times more efficient than Japanese farmers in producing the product. As a result, we are seeing progress being made relative to feed grains. Japan regulations never used to allow on-farm mixing of grain by farmers. All mixing was done by the cooperatives throughout Japan. By allowing on-farm mixing, it will allow farmers to become more efficient, thus reducing costs, and ultimately increase U.S. feed grain exports to Japan. This is an excellent example of the ripple effect at work.

There are discussions now within the Japanese Ministry of Agriculture, Forestry and Fisheries to liberalize the feeder cattle market which will present sizable benefits to Montana to ship more feeder cattle to basically Japan. Again, another example of a ripple effect that is occurring because of the beef and citrus agreement in Japan.

I think one of the questions a lot of people have asked is basically, "Are the Japanese living up to this agreement?" I say, without any reservation, they are; and they are doing this in full. Our export numbers to Japan, as you indicated earlier Senator Baucus, were are up 44 percent from 1987 to 1988 and for the first 9 months of this year, versus the same corresponding period of a year ago, we are up 71 percent. That is a tremendous increase in a market that constitutes about 76 percent of all the meat that we export worldwide.

Another question often raised would be, "Do Japanese concerns who invest in the United States have preferential treatment?"—and there is some concern about Japanese investments in the United States—I would like to submit from the beef industry that I represent, that we do not view Japanese investments in the United States as hostile. We recognize that the Japanese, as an advanced country, are most dependent on imported goods, and on imported foods in particular, more than any other major advanced country in the world.

Therefore, it is incumbent upon the Japanese to go out and secure sources of supply for food. So, we look at their investments positively. Because if Japanese concerns did not invest in the United States—and recognizing that we work so hard in negotiations—they more than likely would be investing in Australia, New Zealand and other markets. If they invest in Australia and New Zealand, they are going to naturally import the cattle and the beef and everything else from those markets. So we do not see their investments here as hostile but rather as positive.

But going back, do the Japanese give preferential treatment to Japanese companies? I think Ambassador Williams can attest to this as well. There are no provisions in that agreement where it gives favoritism to Japanese companies over U.S. companies, or

Australians over Americans, or New Zealand over Americans. It is a global quota. There is no discrimination within that agreement.

The only advantage a Japanese company has vis a vis an American company would be that they would have an extensive network in Japan. If you are a Japanese company, you know the marketing system. You know the distribution system. You know that whole web of wholesalers and retails and subwholesalers and so forth.

However, if you are an American company and you have been in Japan for 10 or 15 or 20 years, maybe like Cargill or ConAgra, you would have an advantage over someone who is new in the market. But a Japanese company—the only advantage they have is the fact that they are Japanese, they speak the language, they know the customs, the culture, and can be very effective very quickly.

I emphasize there is absolutely no bias as far as the agreement is concerned against any company or any country from anywhere.

If we look more closely at the Japanese beef agreement—and again, I say the Japanese are living up to the agreement—they basically imported 274,000 metric tons last year. This year they are scheduled to import 334,000 metric tons; and, of course, the next year would be 394,000 metric tons. So for 3 years during this interim period, as we call it, until total liberalization, there are 60,000 metric ton increases per annum in the agreement.

The tariff basically has been maintained at 25 percent. We have often maintained that this is a very high tariff on beef products to Japan, but this has never been a major impediment. The problem has always been quotas and it has always been our intention to negotiate on the quotas and then address the tariffs as we move toward.

It is also a provision within the agreement that all imports of beef receive equal and nondiscriminatory treatment.

A major development in advancing U.S. suppliers' exports to Japan is the Simultaneous Buy-Sell System (SBS) developed during 1984 negotiations. And now for more background, I was in Japan during two sets of negotiations. But when we went into the 1984 negotiations, I recognized the Japanese system basically keeps or relegates the American supplier from having any contact with his end user and his product. Two of the most important points in marketing are knowing your product and how it is being received in the market and knowing your customers.

Japan's distribution system, because of a lack of transparency did not allow American suppliers to determine how their product is accepted or who their customers are. Therefore, we pushed very strongly from the industry standpoint to institute a system where at least 10 percent of that system of the total quota would allow for the U.S. suppliers to have direct access to the Japanese buyers. By doing so, U.S. exporters learned how their products are accepted and were now able to modify their product as needed in order to do the things that would be germane to really improving their products acceptability in the Japanese market.

In the 1988 negotiations we pushed for this even more aggressively. Basically, SBS was increased to 30 percent of the quota in 1988. We are at 45 percent this year and 60 percent in 1990. Therefore, at the end of the last year of the agreement there will be more meat freely traded in Japan under the SBS quota than under

the general quota. Under SBS we can articulate our specifications, the time of delivery, the amount of the product, and many of those things that are germane to a normal marketing situation.

The U.S. negotiating approach was to try to effect changes positively for the U.S. industry in Japan by negotiating to our potential in the Japanese market. Once the barriers are lifted in 1991 we anticipate having a very strong presence there and strong established momentum for our product in the Japanese market. The current export statistics indicate the U.S. approach to the negotiations is working.

Regarding chilled beef, you recognize the majority of the meat traded on a world-wide basis and consumed here in the United States is chilled beef. However, Japan strictly limited the amount of chilled beef entering Japan. Japan used imported beef as a trigger basically to control prices in Japan. If they had a lot of meat in Japan and prices went down, they would restrict the sale of imported meat and, therefore, would raise meat prices. If your prices were very, very high in Japan, they would release more imported meat in the market and thus lower the price. They could manipulate the market as they deem appropriate.

Chilled beef from the United States was not allowed because you couldn't control the market, and top quality U.S. chilled beef will complete with a majority of Japanese Wagyu or the Kobi beef that is indigenous to Japan. In the 1988 negotiations, the industry insisted in the SBS portion of the agreement that chilled be allowed.

With the successful inclusion of chilled in 1988, just over a year ago, we have doubled, almost tripled, our exports of chilled beef to Japan just within the last year alone. We are very pleased with this agreement because there are developments that are occurring within the context of this agreement that indicate very clearly how we as an industry will perform once the quota is ultimately lifted.

Another concern we had as exporters to Japan was the fact that it was a very closed system also within Japan's complex distribution system. There were a limited number of importers. There were 36 trading companies who were allowed to import the product. There were a limited number of wholesalers, a limited number of ham and sausage manufacturers and many concerns who could not access imported product unless they were quota holders.

I knew after living there for so many years, that there were numerous companies who wanted to participate in Japan's meat business that could not. They simply did not have import quota. Again, we insisted very strongly to allow newcomers to be allowed into this closed system. Allowing newcomers was very important in the negotiations because we wanted to build a clientele for U.S. product and break the established monopoly of quota in the distribution system.

I spent considerable time identifying people who were disadvantaged by the system and listed to their concerns. I recognized that the quota was not only discriminatory to the United States, and probably to our Australian friends, but also very discriminatory to many of the Japanese that were unable to access imported product due to Japan's unfair distribution system. Basically there are the "haves and the have nots." MEF Tokyo's staff worked very, very closely with the have nots and basically built a clientele for what

the U.S. represented in the negotiations. Once many sectors of Japan's trade realized that we were in effect negotiating for their interests, momentum changed significantly in the beef negotiations in favor of the U.S.

Now, after only 1 year, there have been over 150 newcomers. Some are very large companies, for instance "Shin Nitetsu," Japan Steel. There are major companies becoming involved in the meat business that were not allowed to do so in the past. That is significant and will prove to be even more so in 1991.

There are also 10 new importers—companies that are allowed to import the product—thus breaking the monoply of the 36 established importers.

The new Japan beef agreement has paid tremendous dividends to U.S. industry. As an industry, we are very pleased with the results.

There are other areas I would like to address more thoroughly but I think it would probably be too detailed for just this afternoon. However, Ambassador Williams alluded in his remarks to the fact that you thought the beef negotiations were probably one of the most successful sets of negotiations ever conducted with Japan.

It is very important to understand why we were successful. In going back to Ambassador Williams' comments of identifying the people that are disadvantaged and building up a clientele for what we represent, I couldn't agree with him more. However, the question is, "How do you do that?"

It is very easy to say to be successful in marketing to Japan the U.S. needs to have a strong commitment to the Japanese market. What the hell does "commitment" mean? What does building a clientele for your product mean? How do you go about doing that in Japan—a country that is far different from our own—that's the fundamental question.

What contributed most significantly to changing the momentum in our favor in those negotiations with Japan were USMEF activities that changed the environment so favorably to the U.S. position. Japan's trade, press and consumers supported the U.S. position. This was a radical departure from former negotiations, and the Targeted Export Assistance Program administered through the USMEF was primarily responsible for this change.

Congress in the 1985 Farm Bill appropriated $1 billion for export promotion overseas. Industry identified commodities or products where we were disadvantaged, where tariffs or quotas impeded our access to various markets. The U.S. Meat Export Federation was granted $44 million through the Targeted Export Assistance Program.

I was at the time Director in Japan where over $30 million was used in a 3-year period. I submit that TEA money had as much to do with changing the hearts and the minds of the average Japanese as anything ever done in Japan before. As you know, government negotiators negotiate with government negotiators, but who is talking to the consumers, who is talking to the trade, those who are most disadvantaged.

USMEF Tokyo contributed to over 1,000 articles about beef and what it represents and how it represents the closed nature of the Japanese market to the Japanese.

Change occurred quickly. For example, when the yen appreciated in Japan, few of the benefits accrued to the consumer. The Prime Minister of Japan appeared on TV saying every Japanese should be importing products. This is an unbelievable change for a country that has been totally export-oriented. The Prime Minister even said it is in the national interest to import products. Change was occurring in Japan and the USMEF endeavored to have meat identified with that change. Beef became the most symbolic of the closed nature of the Japanese market not only to the Americans but to the Japanese.

USMEF administered Targeted Export Assistance Program funding was the biggest contributor to the changing openness in Japan advertising, and the USMEF conducted over 10,000 promotions in various supermarkets and restaurants throughout Japan in 1987 alone. Promotions, advertising and PR all contributed to creating momentum for U.S. beef in the Japanese market place and for imports in general.

Ambassador Williams mentioned commitment, but what do we mean by commitment to the Japanese market? I would like to further add that in 1984, after the negotiations, I reported in a paper that I was very concerned because the Japanese have the ability to divide and conquer competing sectors in the United States.

You have often heard that if you push for beef increases in Japan you are going to lose your corn sales, and your soybean sales. The Japanese tried to place grain producers against beef producers and so forth. As a result of that paper, we formed what is now called the U.S. Meat Industry Trade Policy Council. We became a united front to the Japanese—The National Pork Producers Council, the American Farm Bureau Federation, the American Meat Institute, the National Cattlemen's Association, and the U.S. Meat Export Federation.

All too often we approach the Japanese with an open hand—fingers spread wide. However, if you hit someone with an open hand, you are going to hurt yourself. If you are an industry united, or a closed fist, you make definite impact. That is exactly what we did in the Japanese market. By having a commitment that was very far reaching, across all sectors of agriculture, we were able to achieve the tremendous gains in the Japanese negotiations.

The commitment to the Japanese market is enduring by the U.S. red meat industry. We have over eight packers who have offices in Japan currently. This is a tremendous commitment when you consider Australia only has one.

Again, referring to Ambassador Williams, he talked about "Gaiatsu," about foreign pressure applied to the Japanese to effect domestic changes. I think he is exactly correct—foreign pressure is very important in the conduct of Japan's domestic policy. However, "NIATSU" internal pressure is equally important. It is the combination of external and internal pressure that contributed to the success of the negotiations.

Consumers, trade, industry and press were very favorable to import access for beef in Japan when the agreement was concluded.

I credit the TEA program and the changing nature of the Japanese trade and consumers as much as I credit the negotiating acumen of our negotiators in reaching this landmark agreement.

Senator BAUCUS. The Japanese people, the consumers?

Mr. SENG. That is right. It was in their interest. Japan opened up their market because it was in Japan's interest, not because it was in the interest of the United States. I am convinced of that.

Senator BAUCUS. Good.

Mr. SENG. Thank you very much.

Senator BAUCUS. Thank you, Phil.

Herb, you are next.

STATEMENT OF HERB TOWNSEND, REPRESENTING THE MONTANA STOCK GROWERS

Mr. TOWNSEND. Thank you, Senator Baucus, Ambassador Williams. I appreciate having the opportunity. I feel a little funny being here. I guess I am the only producer here that goes out and chases these little cows around the county.

I am Herb Townsend. I was asked to testify by the Montana Stock Growers Association. I have a ranch in White Sulfur Springs, Montana, with a cow/calf feed lot operation. I am the past-President of the Montana Beef Council. I have made two trips to Japan and we were over there. That is where I got acquainted with Phil Seng, when we were trying to get up a Montana direct export, a nitch market, so to speak, in Japan.

I might say we were successful in that endeavor in that we had Montana beef in department stores with a sign "Montana Beef" over it and our flags and so forth. Where we broke down was our infrastructure here in Montana in supplying the products. So I do not think we can—our failure was not because of the Japanese or because of anything they did. It was our own fault.

I am a national committeeman of the NCA, the Montana Stock Growers Committee. I fed beef in Montana in my own feed lot. As well as last year we fed cattle in the western Canada. I am a partner in Montana Market Development company in Butte and a Director on the Montana Producers Incorporation, which is a small group of producers of agriculture products in Butte.

We have been successful in that endeavor. We tried to find a nitch market in exporting products, both beef and grain into Japan and I would like to allude to some of our problems there a little later.

First, I would like to commend you, Senator Baucus, on your efforts in getting the Japanese market opened up to the American beef producer. Your efforts are highly appreciated by our industry. In Japan, when we were over there talking to this, they were very aware who Senator Baucus was. You got their attention even at that. How many years was that ago?

Mr. SENG. Four or 5 years ago.

Senator BAUCUS. I am much better known in Japan and Canada than I am in the United States. That's true.

Mr. TOWNSEND. I appreciate Ambassador Williams' understanding and contribution. The American cattle producer is now starting to realize the importance of export. I have talked to a lot 5 years

ago and they said, well it is such a small part, one part of 1 percent of our total industry's exports, why worry about them. I think most of our industry now is recognizing the importance of these exports and without them we would not have the prices that are acceptable as they are today.

The Montana cow producer is beginning to realize that they are the reciprocant of it. They are not just selling feeder cattle anymore. Most segments of our industry are margin added—work on a margin. If they buy beef cheap, they sell it—put their margin on it and sell it cheap and they maybe make more profit than they would in higher beef prices. The ones that are really affected are the ones back down at the producer. All this ripple effect is down. If you get 50 cents for your fat cattle, it ripples down to the producer.

So I think the producer is starting to realize in Montana that through exports we are increasing our demand for cattle and most of it is coming down to the producer more than the middleman.

I think this, as we dealt with numbers, this will become more evident, that we need this increased market demand. I think a lot of times the Government role in this has not been understood. The beef industry, in particular in Montana, does not want the Government in there telling them how much they raised and doing the marketing. But they want the Government to play the role of leveling the playing field so that we are competing on an even market. I think you have done that in Japan in trying to put us in a competitive and open up a market there.

I there are some concerns and I might address this just briefly is the packer concentration issue that has been kicked around quite a bit. We discussed this at our last stock growers meeting which was held here a week ago. We had a report back from the National Cattlemen Association of their task force that they appointed.

There seemed to be two avenues we could go. We could either go with Government controls and try to break up the margins or we could go with a free enterprise system. I think it is the consensus of our beef industry we want to go with the free enterprise system; and we can compete. We have always said we have. We can compete if we are on an even playing field. And that is where we appreciate the Government's input into this.

There are lots of places that we cannot, as an Association, even the playing field and I think this Japanese imports was one of them.

I think we need the opportunity, in Montana, for those interested in the forest products industry, very similar there are problems in the beef industry. We are both basic industries. In order to get the State of Montana growing and get some economy into the State we are going to have to add value to our products. I am sure you are familiar with our problems in the State of Montana as far as the economy. We have a beef industry and a forest industry that has to be developed.

As I said before, these imports are very important to us because any increase in price would come right back down to the producer.

One thing I might suggest would be that some of the TEA money and the export enhancement funds be made more available to small producers groups and to small business in the State of Mon-

tana in that marketing, the small group of producers, we call ourselves the MAGPI—Montana Ag Producers Incorporated. We looked into exporting what we thought was high quality grain products, as well as special variety products as wheat-free hay, high quality hay. When we looked into these possibilities of exporting these things and getting money from the Export Enhancement Program, we found out that the monies were pretty well—the rules were pretty much for the large industries.

For example, we had to be doing $2 million worth of business. We had to be in the export business for a period of 3 years. Some of these rules, you have to have 150 percent bond before we could do business. By the time we got our letters of credit, costs, and our bond costs, the fact that we package a small unit for a nitch market it was impossible to reach any of these funds. I think you might look into the possibility of getting some of these monies to exporting group producers, basic grass roots people that could take advantage of them.

Again, I would like to thank you for your efforts on our part. We, as producers and small business in Montana look forward to a closer relationship to develop a strong economy in Montana with more jobs, more tax base, better education and roads, and adding value to our product from these basic industries, one of the largest of which is the beef industry in Montana.

Thank you.

Senator BAUCUS. Thank you very much, Herb.

Phil, I understand the U.S. Meat Export Federation has commissioned a study on cattle facts for Montana organizations.

Mr. SENG. That is right.

Senator BAUCUS. Do you what the results of that are?

Mr. SENG. Yes. We commissioned a study in 1988. That study basically was for the cattle producer and feeder. About $770 would be the average price of a 1,100 pound steer. The U.S. exports an equivalent of 10 percent of that total. So about $75, $77 of your finished steer would be exported.

Obviously, many people are really amazed at how significant the export market is to the U.S. feeder/producer.

Senator BAUCUS. That would be today?

Mr. SENG. That is today.

Senator BAUCUS. So when this agreement——

Mr. SENG. That was in 1988. I'm sorry. So with the additional tonnage that we have increased and those types of things the numbers would even be more.

Senator BAUCUS. So it is about $76?

Mr. SENG. Per hundred weight, per head of cattle.

Senator BAUCUS. Per head?

Mr. SENG. That is right.

Senator BAUCUS. Due to exports?

Mr. SENG. That is right, due to exports. You can take that further. For example, on the grain side, as I mentioned earlier, the Japanese indicated, if you export more beef to Japan you will lose your feed grain sales to Japan. But it isn't just the meat alone that we exported in 1988. At the end of 1988, red meat exports accounted for 75 million bushels of corn being exported. Between 10-15 pounds of grain is exported for every pound of beef. U.S. grain pro-

ducers have a tremendous interest in the export of red meats, especially when we are increasing at 75 percent per annum.

Senator BAUCUS. Okay. But $76 today. What do you anticipate it to be when the fall quota is eliminated and when the tariff is phased out?

Mr. SENG. Actually, Japan constitutes 76 percent of our exports right now. The Ministry of Agriculture, Forestry and Fisheries in Japan just did a study and they estimate that in the year 2000 the market in Japan alone will double from the current rate. I believe it could even triple, depending on the price relationships—if the prices go down 10, 20 or 30, 40 percent. We can safely see their market doubling easily and this would pay tremendous dividends to U.S. producers.

So possibly in ten years time you could be talking 20 percent to 25 percent of the U.S. animal would be exported. This is counting beef and by-products.

Senator BAUCUS. Now how are we doing compared to Australians?

Mr. SENG. Vis-a-vis the Australians in the Japanese market, we have increased our market share dramatically. As you indicated, we went from 35 percent to basically 45 percent. That is a fact. We are at 45 percent of the total market. We are already number one in the Japanese market as far as value. As far as chilled beef going into the Japanese market, we have doubled our exports this year versus last year.

In all respects, our exports vis-a-vis Australia, we are increasing dramatically.

Senator BAUCUS. Is that because we have more grain-fed beef?

Mr. SENG. It is because we have more grain-fed beef and naturally that is what the Japanese prefer.

Senator BAUCUS. But are the Australians trying to "beef up" their feeder operation?

Mr. SENG. Yes, the Australians are trying to beef up and the Japanese have begun investing there as well. The Japanese are trying to develop their infrastructure for grain-fed beef. But the U.S. advantage is that we already have an infrastructure for grain-fed beef feeding in the United States. Medium sized, as well as larger companies from Japan, can invest in our market with fewer overhead costs than in Australia. The Japanese can contract to have fat cattle fed with U.S. feeders.

So we are seeing increased interest in the United States as well as in Australia at this time.

Senator BAUCUS. I very much agree with you about target export enhancement dollars and the very positive effect they have. I think we appropriated the last couple years, total, about $325 million.

Mr. SENG. That is right. And if you figure, just the $30 million that we were awarded in Japan accounts for only about 2 weeks of meat sales to Japan.

Senator BAUCUS. Yes.

Mr. SENG. And for only 2 weeks' sales amounts, think what that has done for U.S. meat sales long term, and what it has done to the Japanese market. TEA dollars invested to Japan were the best investment ever made by any concern or association there ever.

Senator BAUCUS. I also very much agree with your assessment that it is because we hung together as Americans——

Mr. SENG. That is right.

Senator BAUCUS [continuing]. We are able to be successful. I can remember about the time just before the conclusion of the last agreement that various Japanese envoys, groups that came to America, looking for soft spots, going to some members of Congress hoping they would have a contrary view. We learned about this in advance and so went around to everybody we could think of and said, now look——

Mr. SENG. That is right.

Senator BAUCUS [continuing]. We better hang tough as Americans. So it is not only the various agricultural groups that stuck together—I am sure you had a lot to do with it—you also contacted a lot of these offices too, but I know that when the Japanese delegations arrived, they found a solid front.

Mr. SENG. That's right.

Senator BAUCUS. You could see them go back. That had a lot to do with it.

Mr. SENG. To be successful in negotiating with Japan, you actually need a strategy in Japan and the strategy in the United States.

Senator BAUCUS. I'm sorry.

Mr. SENG. You need a strategy in Japan and a strategy in the United States to be successful in negotiating with the Japanese.

Senator BAUCUS. All right. Just basically, though, the major lesson in beef that can be applied to processed forest products is what? If you could summarize it. Based upon your experience in it.

Mr. SENG. I have limited exposure as far as forest products, based on—but just on what——

Senator BAUCUS. What works?

Mr. SENG. From what I have heard today, my feeling would be that there needs to be more of a message taken directly to the consumers and to the trade that is most disadvantaged in Japan regarding forest products. What are the benefits that can accrue to the customers.

A number indicated earlier, I believe it was $38 billion. I think that is a very well kept secret still in Japan. I would think if it is through the application of TEA funding or something else, the points that were made today need to be publicized in Japan.

You must talk with the trade, with the consumers, with the press. That kind of approach. Then, when the Japanese Government officials, negotiate, there is an informed public in Japan. The problem right now is, they can negotiate without having an informed public on these issues and they have total latitude.

Senator BAUCUS. I found too the Japanese press in America is pretty independent.

Mr. SENG. Yes, Senator.

Senator BAUCUS. They like stories like that once they have the information given them.

Mr. SENG. That is right. We have to make their negotiators accountable to their people. And usually they are just accountable to us in negotiations. I think it is very important.

Senator BAUCUS. Well I want to thank you both very much. Do you have any questions or statements you want to ask of Ambassa-

dor Williams? I forget to ask the forest products panel. Do you, Mike or Stan, any questions you want to ask of Linn or points you want to make to Linn while we have him here.

[No response.]

Senator BAUCUS. You must have already made the points.

Mr. SENG. Thank you very much.

Senator BAUCUS. All right. I thank you all for coming great distances. I know many of you have for the hearing here. It has been very helpful. Thank you again.

The hearing is adjourned.

[Whereupon, the hearing was adjourned at 2:55 p.m.]

APPENDIX

Alphabetical Listing and Material Submitted

Prepared Statement of Don Allen

THE MONTANA WOOD PRODUCTS INDUSTRY—EAGER TO EXPORT

Senator Baucus, thank you for allowing me the opportunity to speak here today. My name is Don Allen, and I am executive vice-president of the Montana Wood Products Association. I am here to express the association's strong support for U.S. Government and industry efforts to eliminate barriers that impede our ability to export wood products to Japan.

As you know, Senator, forest products are of immense importance to the economy of our State. The Montana forest products industry is the State's largest manufacturing activity, with sales of $900 million in 1987. The industry directly employed 10,000 workers in 1987, and gave rise to 20,000 additional jobs in connected sectors. In our western counties, the wood products industry amounts to almost half of the economic base.

An overwhelming ninety percent of Montana's forest products are shipped out of the State. Although exports traditionally have been a relatively small portion of these shipments, we Montanans, like people throughout the country, have made a commitment to sell in foreign markets. We feel confident that, given a fair chance, we can go head to head with the competition in foreign markets and win.

THE U.S. WOOD PRODUCTS INDUSTRY IS HIGHLY COMPETITIVE

Montana produces some of the finest wood products in the world, including lumber, plywood and particle board. Montana companies also produce such finished products as laminated beams, roof and floor joists, and paneling. We believe that nobody can beat Montana wood products for quality and price, and we want to prove it.

How strong is the competitive position of the U.S. wood products industry? According to recent U.S. Government studies, our mills can deliver lumber and plywood for less than half the cost of our Japanese competitors. That's not surprising, of course. Our forests are larger and easier to harvest, our land, labor and energy costs lower, and our mills larger and more efficient. With these cost advantages, we should be able to trounce the competition.

JAPAN UNFAIRLY EXCLUDES U.S. WOOD PRODUCTS

Unfortunately, we are not always given the chance to compete on equal terms in foreign markets. Japan, of course, is a major problem area. Although it is a potentially enormous market for the U.S. industry, we have found it hard to sell our wood products there in the volume you would expect given our competitive advantage over the Japanese industry.

The simplest and most significant barrier to the sale of our products to Japan is tariffs. Japanese tariffs on wood products are uniformly higher than U.S. tariffs. Until these tariffs are lowered to reasonable levels, we will not have real access to the Japanese market. Considering the huge $50 billion trade deficit we run with Japan, this situation is inexcusable.

Worse yet, the more advanced the product, the higher the effective tariff rate. Thus, the Japanese tariff on unfinished lumber is around ten percent, while the U.S. tariff is zero. But the Japanese tariff on laminated lumber, a product we make here in Montana, is 35 percent (once again, the U.S. tariff is zero). The result of these tariff barriers is that Japanese companies, in spite of their inefficiency, buy

U.S. logs, ship them to Japan, and process them themselves. In my opinion, this is exporting jobs, plain and simple.

Some of the problems facing us have to do with Japanese Government policies that prevent Japanese consumers from buying our wood, whether they want to or not. As a result of these policies, the Japanese simply don't consume as much lumber as other developed countries. Considering the traditional Japanese preference for wooden homes, this is a surprising situation.

Let me give you an example. Japanese building regulations prohibit the construction of wood commercial buildings and garden apartments. When you ask why, they tell you its because such buildings are unsafe.

This is nonsense. Wood buildings, properly designed and constructed, are among the most durable structures around. If you walk through Billings or any other Montana town, you will see countless examples of quality wooden structures, designed to endure some of the harshest climactic conditions around. Sure, the Japanese have earthquakes. But what about our winter storms?

Another problem is unreasonable Japanese regulatory practices that make it hard to sell in Japan. One situation that we find particularly upsetting is Japan's refusal to recognize our grade stamps. As you probably know, industry associations such as the American Plywood Association certify the compliance of U.S. products with established standards. Countries throughout the world recognize our grade stamps, as we recognize theirs. But not the Japanese. Even where our standards surpass their own, the Japanese refuse to let us sell unless our lumber bears their own stamp.

MONTANANS DEMAND A FAIR BREAK

Folks here in Montana have nothing against the Japanese. They're a hard working people, and make lots of good products. When they can provide a quality good at a competitive price, we buy it. There's nothing wrong with that, Senator. That's what free trade is all about.

What bothers me is that the wood products industry is not getting the same treatment from Japan. We buy Japanese pickups, consumer electronics and other manufactured goods because they are quality, price-competitive products. I think we should be able to expect the same treatment from the government of Japan.

The Montana wood products industry appreciates the efforts of the U.S. Government and the support of this subcommittee to ensure that we get it.

Thank you very much.

PREPARED STATEMENT OF STANLEY S. DENNISON

My name is Stan Dennison, I am chairman of the Alliance for Wood Products Exports: a broad-based special project of the National Forest Products Association with the goal of opening the Japanese wood products market and increasing sales of U.S. wood products to Japan.

Let me tell you right up front what we are not. We are not an inefficient industry incapable of competing. The U.S. wood products industry is a world leader. Our costs per unit volume are, on average, far less than Japanese costs.

We have made the required long-term marketing efforts in Japan for almost three decades. We produce quality products which are in demand in Japan and which could benefit the Japanese consumer and improve the housing situation in Japan.

So why are we here?

SUPER 301 AND THE 1988 TRADE AND COMPETITIVENESS ACT

Our reason for being here today starts with Congress trade policy decisions in 1988. The Omnibus Trade and Competitiveness Act was drafted to address our huge trade deficit. You, Senator Baucus, played a crucial role in that process.

A central feature of that act was the so-called Super 301 provision: intended to force open important foreign markets which are effectively closed to competitive U.S. products. Japan was one of the clear targets.

Based on the competitiveness of the wood products industry and the barriers to market access documented by the Department of Commerce, wood products market access was designated as a Super 301 trade liberalization priority. Thus, in June, USTR initiated an investigation of Japanese "policies and practices, including technical standards favoring Japanese producers, that restrict imports of forest products in Japan."

USTR also initiated investigations against Japanese barriers to supercomputers and satellites. Given market realities, however, it is clear that wood products is the

only designated trade priority in which large export gains can actually be made and, thus, a key to effective implementation of Congress trade policy.

Now, given Japan's response to the negotiations to date, we have serious doubts that this process will meet Congress' intent of opening closed foreign markets. Limited success on minor technical barriers will not open the Japanese market and will not result in the export gains which are possible. Nor would such limited success meet Congress' trade policy objectives. Japanese tariffs and tariff escalation must be eliminated and unnecessarily restrictive codes and standards must be modified. This is where we need your help.

These negotiations are likely to succeed only if Japan understands not only the technical merits of the U.S. position, which are rock solid, but Japan must also understand the political necessity of solving these problems for overall trade relations. Japan must understand that failure to open this market, which has been listed as a paradigm for Japanese willingness to liberalize, could be taken as an important sign of unwillingness to address closed sectoral markets which are a crucial factor in the trade imbalance.

Alternatively, we would hope that Japan would appreciate that opening this market would reduce the cost and improve the availability of high-quality building products for Japanese consumers. Opening this market would increase the consumption of wood products in Japan. Opening this market would strengthen Japanese efforts to maintain trade in raw materials.

We hope that you can help us in communicating these messages to Japan and in assisting the administration to demonstrate to Japan the necessity of progress. The political reality is that without that kind of increased political focus—in Congress and in the administration—Japanese concessions are likely to be late, little and ineffective.

The time for action is now. Six months from now, if negotiations are moving toward an unsuccessful conclusion, it will be too late. The focus and attention necessary to make these negotiations a success must come now.

THE BENEFITS OF SUCCESS

I would also like to take a moment to discuss the possible benefits of success. Those benefits—both for the U.S. industry and for U.S./Japan trade policy—are enormous.

Currently, despite our efficiency, despite our marketing efforts, a web of Japanese tariff and non-tariff barriers seriously impede the importation and use of wood products in Japan.

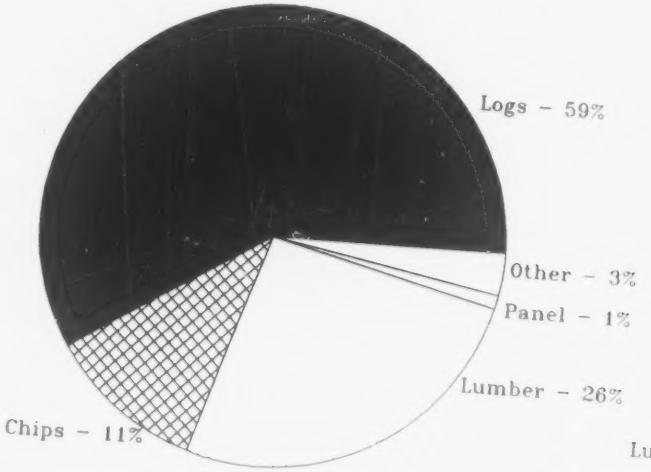
As a result, while the Commerce Department calculated that U.S. lumber mill costs averaged from about 33-50% of Japanese costs on a per volume basis and U.S. plywood mill costs averaged about 50% of Japanese costs, chart, Japan still imports primarily raw materials from the United States. In 1988, over 70% of Japan's wood products imports from the United States by value were raw materials, the opposite of the situation in the rest of the world where 69% of the wood imports from the United States are value added. Chart. In fact, if you compare developed regions' imports from the United States, Japan's failure to import value-added materials is even more stark. Chart.

U.S. Government and industry sources estimate that removal of barriers could increase U.S. shipments of value added wood products to Japan by from $500 million to $2 billion annually.

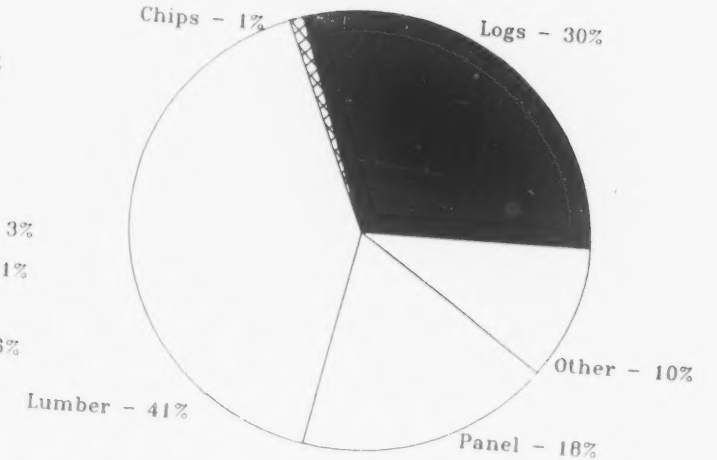
I would like to now ask our counsel, Mike Stein of Dewey, Ballantine, Bushby, Palmer and Wood, to discuss the specific Japanese barriers with which we are concerned. Let me note, however, that elimination of the broad group of these barriers is necessary if we are to have true market access.

JAPAN'S BARRIERS TO WOOD PRODUCTS INHIBIT VALUE-ADDED IMPORTS

1988 – BY VALUE



JAPAN'S IMPORTS OF
U.S. WOOD PRODUCTS



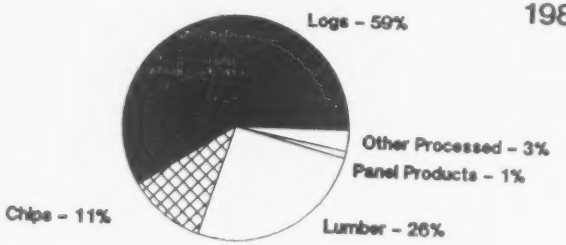
REST OF WORLD IMPORTS OF
U.S. WOOD PRODUCTS

Source: NFPA/FAS

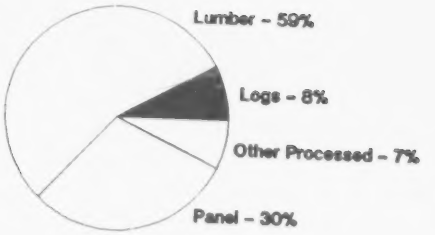
JAPAN'S BARRIERS TO WOOD PRODUCTS INHIBIT VALUE-ADDED IMPORTS

Developed Countries' Imports of U.S. Wood Products

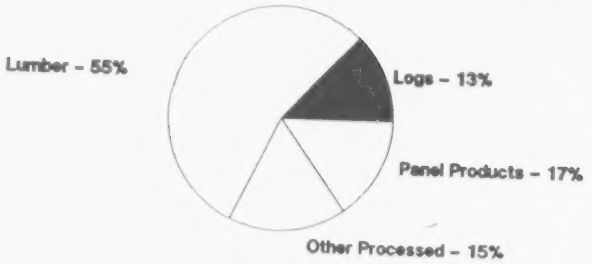
1988 – by value



JAPAN'S IMPORTS OF
U.S. WOOD PRODUCTS



EUROPE'S IMPORTS OF
U.S. WOOD PRODUCTS



NORTH AMERICAN
IMPORTS OF U.S. WOOD PRODUCTS

Source: NFPA/FAS

PREPARED STATEMENT OF W. RAMSAY SMITH

The Japanese people have been endeared to the use of wood and wood products for over 6000 years. Throughout this period forest products have comprised a major part of their lives culturally as well as materially. Large wood shrines and temples are found throughout the country and Japanese wood homes reflect a special care and reverence for displaying wood's beauty.

Japan is thought of as a crowded island with very high land prices and limited space for residential construction. What may be little recognized is that approximately 68% of this mountainous island's land area or 61.8 million acres is forested. Over 34 million acres is natural forest and the remainder is in forest plantations. The majority of this material, however, is too young to harvest since it was planted after WW II, therefore only 39% of forest products consumed in 1988 was produced domestically and over 61% imported. Plantations are projected by the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) to begin being harvested intensively in the next 10 to 12 years. There is some question, however, whether their timber harvest will ever reach fifty percent of their demand due to changes in forest management labor practices, high labor costs and a favorable exchange rate allowing wood imports at lower cost.

Current lifestyles and building practices, even while changing in many respects still rely on wood construction and other forest products. In 1988 a total of over 3.76 billion cubic feet of forest products was consumed. The greatest majority of this material (60.30%) was in the form of solid wood products, and the remaining 39.7% in pulp, pulpwood and chips.

Total Japanese wood imports in 1988 consisted primarily of logs (46.4%), followed by wood chips (24.6%), lumber (13.8) and pulp (13.1%) (Figure 1). Segregating the solid wood imports from pulp and paper imports, approximately 70% was in the form of logs which amounted to 1.05 billion cubic feet compared to less than 300 million cubic feet of lumber (20%) and 37 million cubic feet of plywood (2.5%). These logs helped supply the 17,886 sawmills, 147 plywood mills and 49 veneer mills operating in Japan (1987) hence the desire to import as much raw material as possible. The South Sea countries provided 39.9% of the logs, the United States 32.0% and Russia 19.6%. The greatest majority of lumber came from Canada, 37.6% followed by the United States, 30.9% and the South Sea countries, 18.0%. Almost all of the plywood came from the South Sea countries.

Most of the material from the United States was supplied by the Pacific Northwest. In 1988 Washington and Oregon received 63.2% or $1.987 billion of the $3.145 billion United States total sales in forest products to Japan. The majority of this was shipped from Washington State, $1.458 billion.

The value breakdown of forest products going to Japan in 1988 from Washington and Oregon are shown in Figures 2 and 3. The greatest majority is softwood logs followed by softwood lumber in Washington and pulpwood and chips in Oregon.

Most indications are that Japan's wood products imports will continue to remain high. Since most of the wood consumed in Japan is in construction, (Figure 4), housing starts would be a good indicator. Japanese housing starts have been increasing for the past five years to an estimated 1.7 million starts in 1988 (Figure 5). Although some reduction may occur, starts are expected to continue at the 1.2-1.6 million level well into the 1990s due to: (1) replacement of existing, dilapidated housing stock and (2) the Japanese Government's desire to increase the housing stock. In addition, the government, in an attempt to draw more people from the large cities, has begun a program designed to establish more industry in rural areas. This will also create a need for more housing in these areas. Land subsidies to retain farmland from housing developers, however, have kept land prices astronomically high, especially in urban areas.

Housing starts alone are not a complete measure of forest products consumption, however. The number of wood structures has declined from 65% to less than 43% of all housing starts in the last ten years. This is due to an increase in multi-family housing which has brought with it the increased use of non-wood structures due primarily to fire and structural code regulations. The cost of traditional wood housing has also caused an increase in prefabricated houses, which are primarily concrete and steel. Since wood structures are primarily single-family residences, however, total wood structure floor space still comprised 54% of all housing floor space constructed in 1988 (Figure 6).

The majority of these single-family residences are constructed through traditional methods. Of the almost 698,000 wood structures built in 1988, over 655,000 were traditional post and beam and 43,000 were platform frame construction. The approximate 988,000 non-wood structures built in 1988, comprised primarily of multi-family

residences, are concrete and steel buildings (75%) and concrete and steel prefabricated structures (25%)

Prefabricated housing was introduced in the early 1970's and steadily increased its share of the housing market to 251,000 units or 15% in 1988. A large number of computer designs exist for these houses. A customer can sit down with a representative of the company, and custom design their house within a couple of hours. This design is then sent to a factory which cuts all components and ships by truck to the site. Erection time is, therefore, very short.

The great success of this housing type is attributable to its cost competitiveness and very short construction time. Prefabricated concrete and steel construction, however, has been noted to lack an even greater share of the housing market since it does not provide the "natural feeling" that wood offers.

Platform frame 2x4 wood houses began appearing in Japan in 1974 and increased to more than 43,000 in 1988, or about 3% of total housing starts. Platform frame wood housing resulted through initial Canadian marketing efforts of North American softwood dimension lumber, designed to replace the Japanese sized posts and beams. North American products, however, are not being used exclusively in these structures. Approximately 95% are built using a modified Japanese version based on their traditional post-and-beam construction. This technique uses a single construction crew from foundation through framing and finishing; only plumbing and wiring may be subcontracted out. This still results in relatively long construction times and high labor costs.

In addition, it uses a building module based on the size of a tatami mat. This module is approximately 3 by 6 feet which means studs are placed on 18- or 36-inch centers, reducing the use of 4x8 panels and other dimensions common to U.S. producers. This technique also does not appear to offer significant cost savings over Japanese prefabricated homes; so there is little incentive for this technique on the part of either the home buyer or the builder other than style.

In addition to the traditional wood housing market and the existing "2x4" market, a third housing market is emerging. This is also a "2x4" platform frame construction but using the United States construction system which encompasses a 4x8 construction module. Several studies suggest that this U.S. method of construction, which uses specialized crews for different construction phases, is much less expensive than either traditional Japanese construction or their modified 2x4 construction technique. If these studies are confirmed, U.S. lumber grades are accepted and building codes can be adapted, there is potential for quickly increasing U.S. dimension forest products exports to Japan to the benefit of both countries.

The United States could benefit in a number of ways by increasing the size of this particular market. Traditional Japanese construction requires an appearance grade lumber which our old growth timber provides. Through promotion of the United States 2x4 housing construction system, more abundant second and third growth material can be more readily used. In addition, trade exports to Japan in the form of "valued added" products will be substantially increased, including doors, windows, hardware and fixtures.

Since the cost of land in Japan is extremely high, cost savings are important to the homeowner. U.S. 2x4 platform frame construction system has been shown to have lower construction costs and be erected in one-third the time as traditional housing and still maintain high quality. In addition to the cost-saving features, platform frame house construction, which offers heating and cooling advantages over traditional Japanese construction, is becoming well accepted by the Japanese consumer. It is also expected that these homes will meet the cost and quality criteria of the Japanese Government, thereby making them eligible for low interest rates. Finally, as profit margins increase, builders will also benefit by using this system.

Even though the 2x4 housing market in Japan has potential, the traditional housing market is vastly larger. It is also more difficult for U.S. producers to manufacture for. It requires a large and long term commitment since "new" products will be produced or products not being manufactured for the domestic market. A mill will also have to learn how to produce the metric dimensions and Japanese grades which will be acceptable as well as determine what to do with the downfall or odd sizes not meeting Japanese specifications. This is especially true for metric lengths which are not acceptable in the U.S. market and, therefore, accumulate at the mill site. This market can certainly be supplied successfully by United States producers, however, proven by the current success of a relatively small number of mills. These mills report that up to five years were required to establish their Japanese markets, but now they have more business than they could ever hope to supply.

Traditional Japanese housing is constructed so that it is open and the size of the rooms can be changed with the opening or closing of soji screens. This construction

method has been a problem with respect to fires. When a fire occurs it can quickly flash through this type of structure consuming the very flammable interior components and cause fatalities much quicker than in platform frame construction. Since these have been considered as "fire traps," very restrictive codes have been developed for all types of wood construction. In addition, since these codes are regulated by the Ministry of Construction, little change has occurred since officials have technical backgrounds in concrete and steel and are not well versed in wood construction. Also, since prescriptive codes are used and wood is considered only as a material, not as a component in a system, it is relatively simple to discriminate against wood. Prejudice against wood therefore exists especially with respect to multi-story, multi-family housing, the largest market segment.

Japanese building codes require "non-combustible" horizontal fire separations in multi-family dwellings. This effectively eliminates wood construction since through their prescriptive codes wood burns therefore can not be used. This has been shown not to be a problem in the U.S. since fire can be contained in an area of the structure. It is not even allowed with proper sprinkling systems.

Even multi-story, single family residences are limited by these codes. Three story buildings were allowed with code changes in 1987, however height allowances were not amended which effectively nullifies this change. Wood residential buildings still have an eve requirement of not over 9 meters (29.25 feet) in height and a maximum roof peak height of 13 meters (42.25 feet). This is the same as prior to the three story code change.

Lumber grade requirements are also a limiting factor for platform frame construction. Japanese lumber grades are based on appearance of the piece, not strength as are U.S. grades, therefore are not directly comparable. Since U.S. wood construction materials are required to obtain JAS certification, they are being made to fit into categories which they were not intended. A JAS certification stamp can either be obtained by regrading all material exported to Japan in Japan or a mill must obtain JAS approval and be certified to apply the stamp. Both are very expensive. This procedure appears to be arbitrary since U.S. dimension lumber, plywood, and laminated products are being force fitted into grades that do not really apply when used in platform frame construction.

Since building codes are administered through the Ministry of Construction and lumber grades are administered through the Ministry of Agriculture, Forestry and Fisheries, two different agencies have to be satisfied. Also, since these organizations are vertically organized there is no communications between them. Trying to obtain a unified decision on platform frame construction can be extremely difficult, if possible at all. The "run around" or delay tactics are real.

The U.S. Government should therefore press to obtain recognition and acceptance in Japan of U.S. structural lumber and plywood grades when wood platform frame and other U.S. construction techniques are employed. There is over 200 years of background data supporting the quality and safety of these methods as well as a recent "proving ground" with the San Francisco earthquake. Plans should emphasize the complete U.S. construction system, which can lower construction costs, maintain or increase construction quality, as well as increase the exports of U.S. construction materials on a value-added basis.

Since changes in Japanese building codes and product specifications can only be done by Japanese officials and they rely almost entirely on results from their own laboratories; cooperative research between U.S. researchers and Japanese researchers and government officials in Japan should take place. Universities and government laboratories in this country would have the greatest chance of success in this endeavor due to their acceptance in these circles. This will require funding which must come from both industry and government in all countries involved.

The total potential Japanese wood market increase when U.S. building codes and structural lumber grades are adapted is tremendous. The Government Housing Loan Corporation (1988) has shown that the average single family structure costs 16.77 million yen to build (excluding land) and has a floor area of 125.6 square meters. They have also determined that wood products in this average home comprise 30% of its total construction costs. If an exchange rate of 140 yen per dollar is assumed, $35,935 is the wholesale cost of wood products (excluding labor) per unit built. This would amount to a $23.8 billion forest products market in 1988. With building code and structural lumber changes allowing multi-family wood structures, the 1975 level of wood structures could be realized. This was 65% of the total housing starts or 1,095,000 wood units amounting to a $38.8 billion market. This is a 63% increase which would benefit the Japanese consumer, Japanese wood industry and external suppliers.

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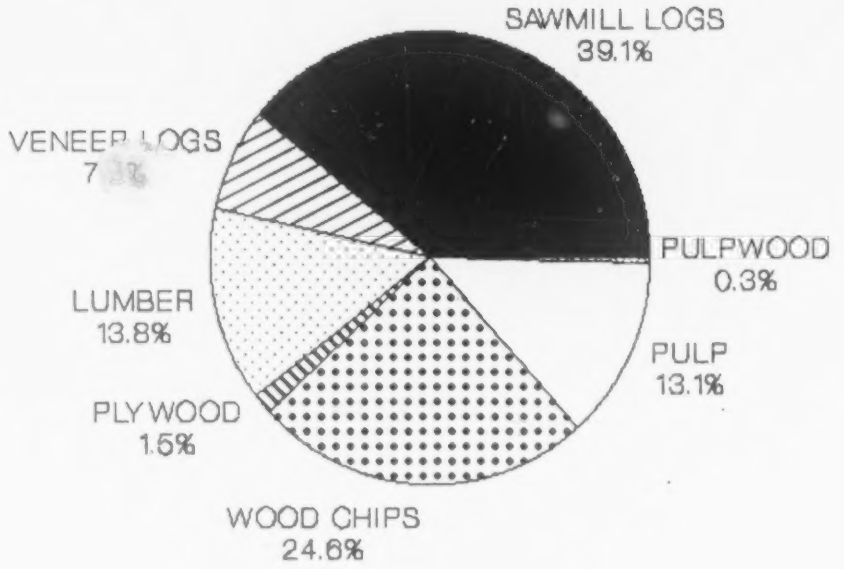
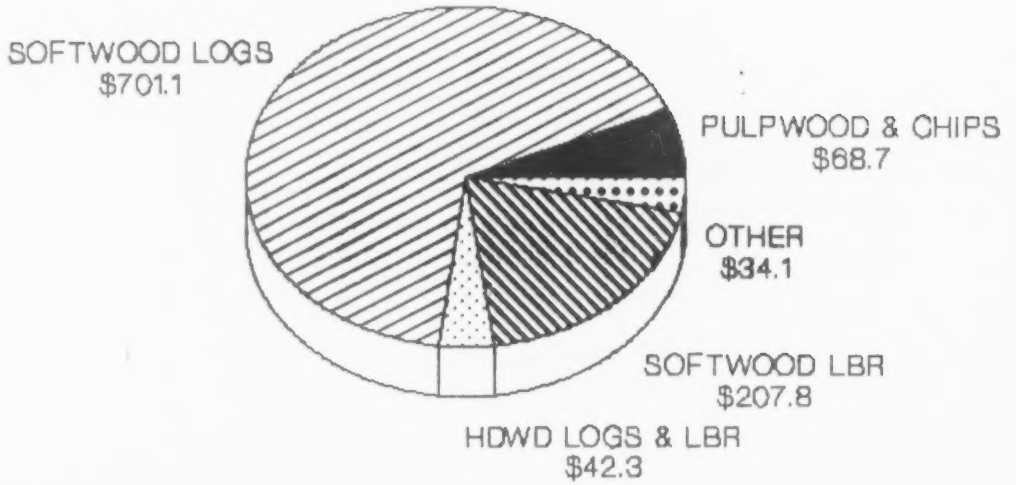
FIGURE 1. JAPANESE WOOD IMPORTS (1988)



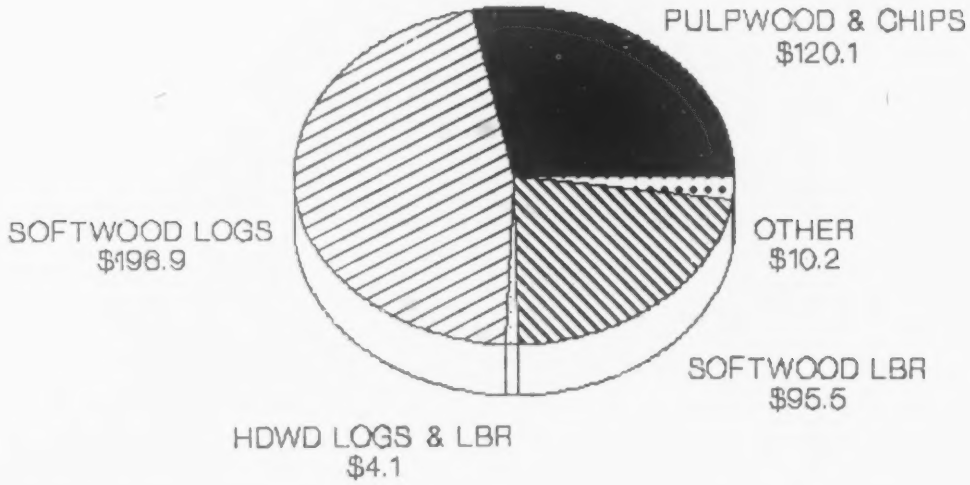
FROM NMBK 12/88

FIGURE 2. MAJOR WOOD PRODUCTS EXPORTED TO JAPAN FROM WASHINGTON (MILLION)



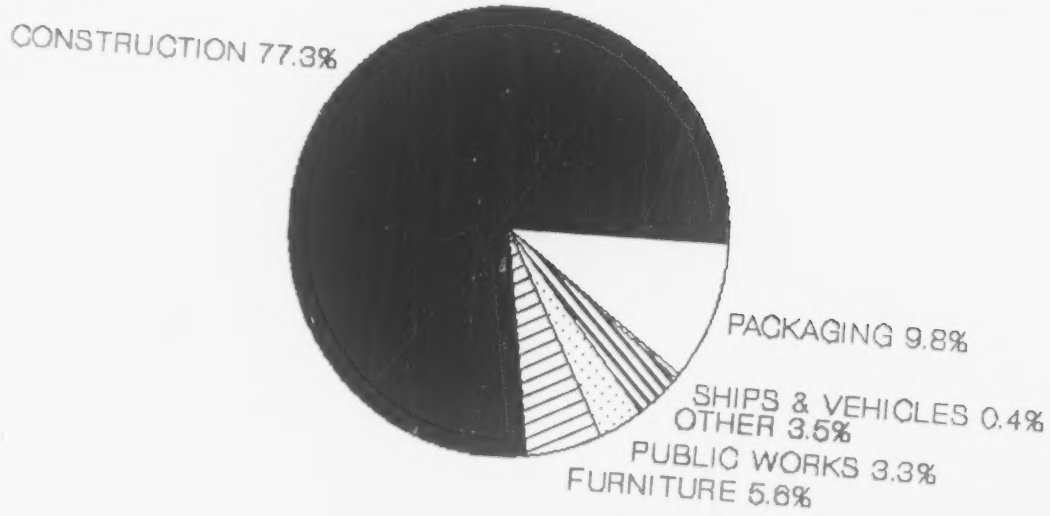
FROM: CINTRAFOR & USDOC

FIGURE 3. MAJOR WOOD PRODUCTS EXPORTED TO JAPAN FROM OREGON (MILLION)



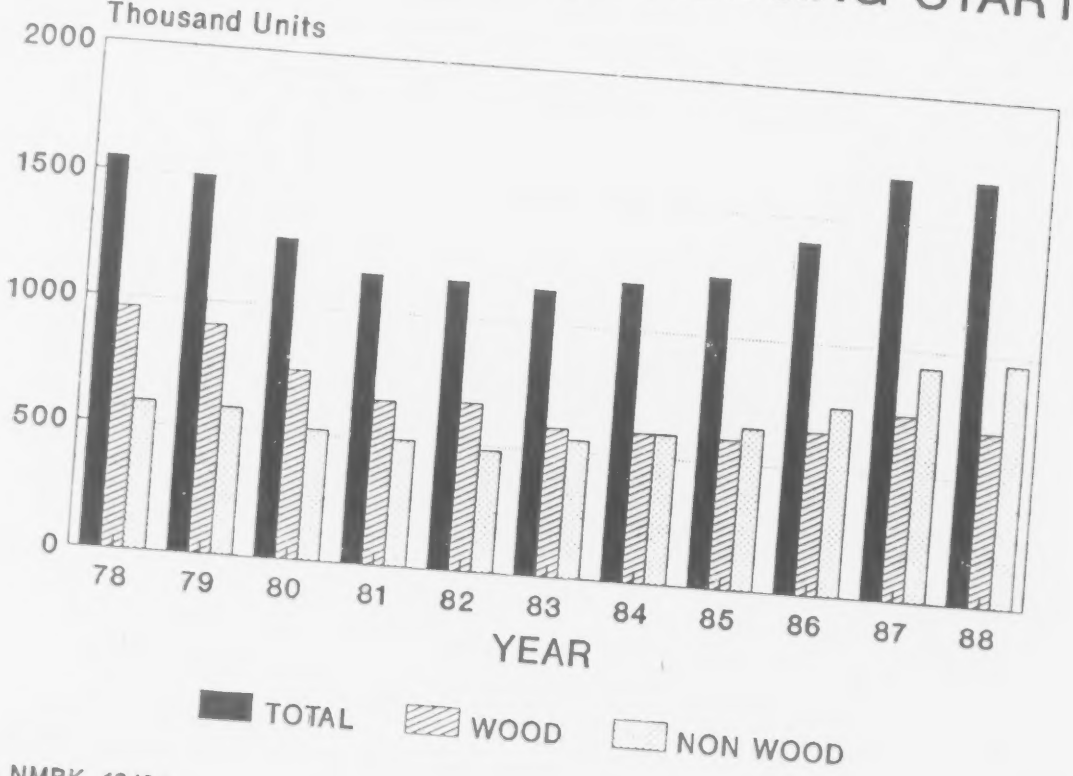
FROM: CINTRAFOR & USDOC

FIGURE 4. SOLID WOOD USE IN JAPAN (1986)



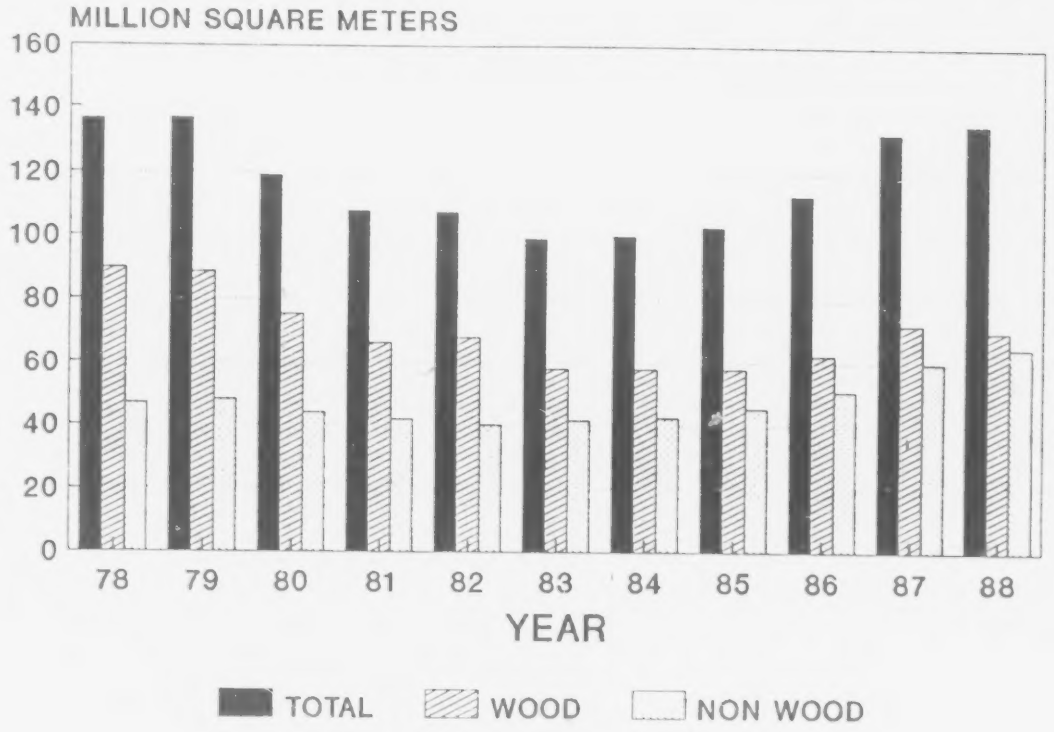
FROM: FORESTY AGENCY, MAFF

FIGURE 5. JAPANESE HOUSING STARTS



FROM: NMBK, 12/88

FIGURE 6. JAPANESE FLOOR SPACE



FROM: NMBK 12/88

PREPARED STATEMENT OF MICHAEL H. STEIN

My name is Michael Stein. I am a partner in the law firm of Dewey, Ballantine, Bushby, Palmer and Wood. We represent the Alliance for Wood Products Exports.

As Stan indicated, this is a competitive industry, fully capable of competing in Japan. The plain fact is that what is keeping us from making enormous increases in our exports to Japan is an interlocking web of tariff and nontariff barriers. These must be eliminated.

I would also like to echo the point that solving this problem would benefit both the U.S. and Japanese industry, the Japanese consumer and U.S./Japan trade relations. That doesn't mean that it will be easy. In fact, Congress will have to make it perfectly clear that dramatic progress is needed in this area, otherwise results will be, as Stan says, little, late and ineffective.

My point is that we can succeed, if we can focus the discussion with enough congressional and administration interest and we can communicate our concerns effectively to Japan.

Let me now discuss the Japanese barriers.

The Japanese barriers take a number of forms:

TARIFFS

Japanese tariffs and tariff escalation seriously impede importation of U.S. wood products. While even on a nominal basis, Japanese wood products tariffs are much higher than U.S. tariffs, the effective rate of protection on value added products resulting from Japanese tariff escalation is dramatic.

These tariffs significantly impede both wood products importation and consumption in Japan.

The U.S. industry has worked for years to eliminate these tariff barriers, but those efforts have met with only limited success.

In the Tokyo Round of multilateral trade negotiations, wood products were included with agricultural products and tariff bindings were limited. Thus, the U.S. industry is particularly reluctant to rely exclusively on the Uruguay Round for tariff reductions as the Japanese have suggested. Real progress on tariffs in the Uruguay Round is unlikely if, as is likely, wood products are classified with agricultural products.

While the MOSS talks did result in significant cuts in some wood products tariffs, MOSS clearly contemplated further tariff negotiations once the effects of the agreed to cuts were made, but Japan has refused to negotiate on tariffs.

The U.S. industry views tariff elimination as crucial to real market opening, which is the purpose of this endeavor. Solving some technical barriers while leaving high tariff escalation in place would not open the Japanese market.

STANDARDS/CODES

In addition to tariffs, a web of unnecessary Japanese standards and code restrictions inhibit the use of wood products in general and imported North American products in particular. Generally, these code and standards provisions are prescriptive, rather than requiring building materials to meet certain performance requirements for structural integrity and safety as is preferred under international trade rules.

Let me be perfectly clear what we are not talking about. We are not asking that Japan impair in any way the life-safety of Japanese consumers. Wood products are a safe building material, in many cases safer than the alternatives. Similarly, reasonable performance-based codes would fully protect life-safety and, in many cases, would actually provide better safety for Japanese consumers.

In this regard, inaccurate and distorted reports from the Japanese Government and press suggesting that the changes which the United States is seeking would endanger safety in Japan are inaccurate and counterproductive, both to this process and to U.S./Japan trade relations. For example, after the tragic San Francisco earthquake, an official of the Japanese Fire Marshall's Office issued a press report that wood buildings in San Francisco had sustained significant damage and that for safety reasons Japan had to prevent further modifications of its code. *That report ignored the facts:* in the San Francisco earthquake, as in previous earthquakes, wood buildings constructed under modern codes performed exceptionally well, far better than many other forms of construction (as is confirmed by actuarial data from the California insurance board) indeed, the combined strength and flexibility of wood makes it particularly safe in earthquakes. Japanese reports concerning safety concerns (like reports on wet snow and short intestines which surfaced in pre-

vious trade disputes) are counterproductive and can only serve to impede a resolution of this matter.

Let me give you a few specific examples of the types of code and standards problems which we are referring to:

—Japan's building standards law does not permit multi-level, multi-family wood housing (such as garden apartments)

—Wood commercial buildings or multiple use buildings cannot be built in Japan.

—Four story wood homes or wood buildings over underground parking garages cannot be built in Japan.

—In addition, Japan seriously limits the ability of imported products to be certified for use in Japan. Thus, while many countries, including West Germany, the United Kingdom and Sweden, recognize the grade stamps of approved U.S. agencies as certifying performance to specified levels, Japan refuses to recognize U.S. grade stamps. Even when U.S. agencies have gone through the considerable trouble and expense (and years of time) required to obtain the right to apply the Japanese agricultural standards stamp in this country, unnecessary restrictions limit the cost effective use of that stamp.

These restrictions not only harm the U.S. and Japanese wood products industry, but they injure the Japanese consumer. Both for the sake of trade relations and for the inadequate housing conditions in Japan, these barriers to the safe, cost-effective use of wood products should be removed.

CUSTOMS MISCLASSIFICATION

In clear violation of the classification requirements of the customs cooperative council nomenclature, to which Japan subscribes, Japan has misclassified several high-tech U.S. wood products. This customs misclassification has artificially increased the tariff on structural laminated lumber products (so called glulam products) and laminated veneer lumber from 3.9% to from 15-20%.

SUBSIDIES

Numerous Japanese subsidies result in the production of wood products which would otherwise be uneconomic. Two types of subsidies are of particular concern in these negotiations.

First, in response to the moss market-opening concessions, the Japanese Government authorized a massive group of counter-liberalization subsidies, intended to offset the effects of eliminating other trade barriers. Counter-liberalization subsidies should not be permitted in response to future market opening.

Second, the Japanese Government has some capital and operating subsidies which have directly contributed to wood products production which would otherwise not have occurred. For example, some capital subsidies have obviously been used to finance modification of hardwood plywood mills (which can no longer obtain adequate log supplies) to producers of laminated products, in which the U.S. industry excels.

Both of these types of subsidies should be prevented.

STRUCTURAL ISSUES

In addition to the specific wood products barriers, Japanese wood products consumption and importation is also impeded by structural barriers. These barriers include **restrictive land/housing policies, anticompetitive practices** and an inefficient **distribution system.**

While the U.S. industry realizes that reforms in these structural areas are only likely to have an effect in the long term, we are supporting the administration's efforts to address structural barriers in trade negotiations. The effect would be lower priced wood products, and an inevitable increase in consumption.

THE NEGOTIATIONS

The United States and Japan are engaged in wood products negotiations. The administration has agreed that those negotiations should address the breadth of the barriers raised by the industry. Unfortunately, Japan has shown little willingness to modify its restrictive market barriers.

Japan and the Japanese industry must be made aware of the importance of a successful resolution of these matters:

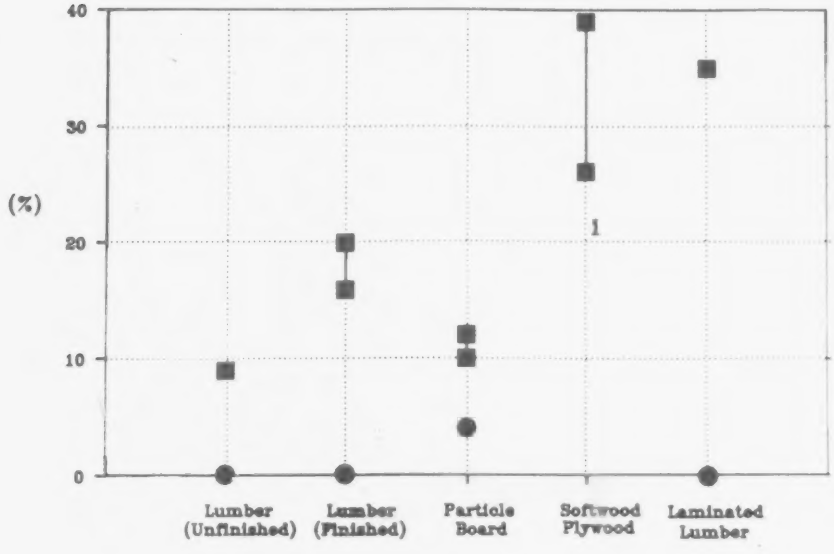
—For trade policy perspective, the United States needs a signal in wood products negotiations that Japan is serious about opening sectoral markets and addressing the trade imbalance.

—Increased imports of high-quality, reasonably priced wood imports would benefit Japanese consumers and improve the quality and affordability of Japanese housing.
—With respect to trade in wood products, real progress in opening the Japanese market to value added wood products would have an enormous beneficial impact in this country with respect to trade policy decisions concerning logs.
—Failure to make real progress on wood products would seriously affect Japan in terms of further implementation of the Omnibus Trade and Competitiveness Act (including designations in 1990) and in possible future legislation.
—Removal of the barriers would not significantly injure the Japanese industry because increased consumption could more than compensate for increased imports.

We hope that Congress will assist the U.S. industry in effectively communicating the importance of a successful resolution of this problem to the Japanese Government, Japanese industry and involved parties in the United States. Success is so important to the U.S. industry and to U.S./Japan trade relations. We are concerned that that success will evade us, however, if Congress is not a full participant in this process. As I indicated earlier, the time for action is now.

HIGH JAPANESE TARIFF ESCALATION INHIBITS U.S. WOOD PRODUCTS IMPORTS

EFFECTIVE RATES OF TARIFF PROTECTION



[1] The U.S. softwood plywood tariff, 20%, will be reduced or eliminated when a plywood standards dispute with Canada is settled.

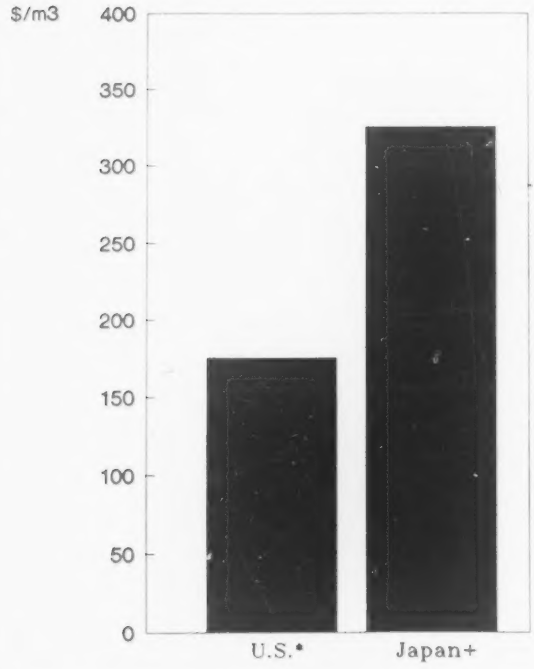
JAPAN ■
UNITED STATES ●

BARRIERS RESULT IN HIGHER COSTS IN JAPAN

Wholesale Price Comparison: Similar Products

U.S. V. Japan

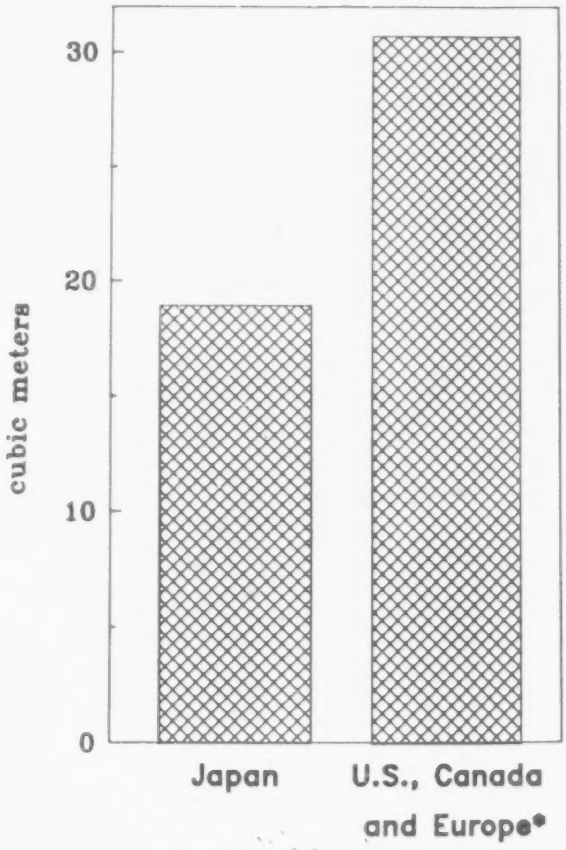
(December 1987)



* Douglas Fir 4" X 6" #1 green; Portland wholesale price plus estimated freight and estimated insurance to Japan

\+ Douglas Fir rough cut flitch 10.5cm X 15cm, #1; Wholesale price in Japan

JAPANESE BARRIERS INHIBIT CONSUMPTION
LUMBER CONSUMPTION
(PER $000,000 DOLLAR OF GNP)



*Includes 25 European Countries